

CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

For the Year Ended June 30, 2019



Pearcy and Gray, PSC
Certified Public Accountants

2300 Hursbourne Village Drive, Suite 500
Louisville, Kentucky 40299
Phone: (502) 493-1090
FAX: (502) 493-7231

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE STATEMENT OF NET POSITION	17
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES	19
BALANCE SHEET – GOVERNMENTAL FUNDS	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	23
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	25
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS	27
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	28
NOTES TO FINANCIAL STATEMENTS	30
OTHER SUPPLEMENTARY INFORMATION:	
BUDGETARY COMPARISON INFORMATION	68
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	70
SCHEDULE OF CONTRIBUTIONS – PENSION LIABILITY	71
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	72
SCHEDULE OF CONTRIBUTIONS - OPEB LIABILITY	73
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS	74
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS	75
COMBINING BALANCE SHEET – NON-MAJOR PROPRIETARY FUNDS	76
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – NON-MAJOR PROPRIETARY FUNDS	77
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – COMBINED UTILITIES OPERATING DEPARTMENTS	78

TABLE OF CONTENTS

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	81
SCHEDULE OF FINDINGS AND RESPONSES	83



PEEROY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

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, 2019, 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
March 6, 2020

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, 2019, 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, budgetary comparison information and pension and OPEB schedules on pages 5–15 and 68-73 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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 nonmajor fund financial statements 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 March 6, 2020, 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

To the City Council
City of Bardstown, Kentucky
March 6, 2020

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

2019-001: The Former Chief Financial Officer/Occupational Tax Administrator Did Not Follow The City's Internal Controls Pertaining To Cash Receipts Resulting In Missing Funds

2019-002: The City Has Poor Internal Controls Over Occupational Tax Receipts

2019-003: There were Poor Internal Controls Over The Credit Card Use

2019-004: The City Has Poor Internal Controls Over Retirement Payments

2019-005: The City Has Poor Internal Controls And Lack Of Segregation Of Duties Over Bank Reconciliations And Cash Reporting

2019-006: The Former Chief Financial Officer Opened Nine New Checking Accounts Without The Required Two Signatures

2019-007: The City Should Consider Forming An Investment Committee

2019-008: The City Has Poor Internal Controls Over The Budget Process

2019-009: The City Should Have Each Department Perform An Inventory Of Capital Assets

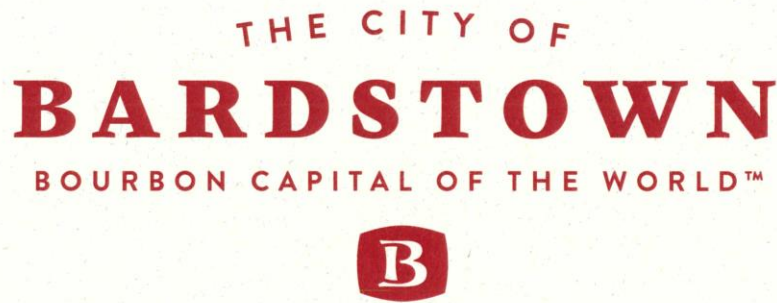
2019-010: The City Has Poor Internal Controls Over Tax Abatement Documentation

2019-011: The Self-Insurance Fund Is Showing A Deficit As Of June 30, 2019

A handwritten signature in black ink that reads "Perry and Gray, PSC". The signature is written in a cursive, flowing style.

March 6, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis Annual Financial Statements For the Fiscal Year Ended June 30, 2019

The Management Discussion and Analysis of the financial performance of the City of Bardstown provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please review the MD&A in conjunction with the auditors' transmittal letter and the City of Bardstown Audited Financial Statements. Should anyone have questions or desire additional information, please contact Aaron Boles at aboles@bardstowncable.net.

Financial Highlights

As of June 30, 2019, the City's Net Position (assets minus liabilities) totaled \$73,862,016.

- This is the fifth 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 \$17,839,568, Deferred Inflows of \$1,958,567, Deferred Outflows of \$5,526,832 and the additional accrued pension expense of \$363,485 in the Governmental Activities and \$603,804 in the Business-Type Activities, there is now a negative balance in the Unrestricted Net Position in the Governmental Activities of (\$7,841,582).
- This is the second year of the required implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. There were significant changes to the financial statements due to the implementation of GASB 75. Due to the recording of the Net Pension OPEB Liability of \$5,227,028, Deferred OPEB Inflows of \$1,355,173, Deferred OPEB Outflows of \$1,678,117 and the additional accrued OPEB expense of \$632,233 in the Governmental Activities and \$129,746 in the Business-Type Activities, there is now a negative balance in the Unrestricted Net Position in the Governmental Activities of (\$7,841,582).
- The Net Pension Liability of \$17,839,568, 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.
- The Net Pension OPEB Liability of \$5,227,028, due to the implementation of GASB 75, is the City's proportionate share of the net OPEB pension liability with the Kentucky Retirement Systems. See Note 8 of the financial statements for more information.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2019
March 6, 2020

- Net Position includes Capital Assets, net of related debt, of \$69,706,000, \$7,543,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of (\$3,387,000), of which \$4,454,000 is in the Utility Fund and the Governmental Funds now have a (\$7,841,000) balance due to the implementation of GASB 68.
- City Liabilities on June 30, 2019 totaled \$43,770,000, of which \$34,992,000 is long term and \$8,778,000 is current, including FY 20 bond and KIA loan payments, accounts payable, internal balances, deferred revenue, net pension liability and other liabilities.
- The City paid \$1,165,000 toward its bonded debt in FY 19 as scheduled; leaving a year-end balance of \$2,445,000. The debt is being paid from combined utility system revenues, though it is general obligation debt that refinanced earlier revenue bonds. During the 2/11/2020 council meeting, an early payoff of our 2010 Series Bond debt was approved saving the city approximately \$27,115 in interest payments. Scheduled payoff is 3/25/2020 of FY20.
- The City also paid \$361,661 on the 4 KIA loans it had received for major water and sewer projects, leaving a year-end balance of approximately \$6,495,468 on the existing 20-year loans. A new KIA loan for water was finalized during FY19 for \$1,088,603. This loan funded the water treatment plant's conversion to chloramine. The total loans payable to KIA was \$7,584,071 for FY19.
- The City also paid \$70,805 on a loan in the General Fund for equipment for the Fire Department.
- The Unrestricted Net Position is (\$7,841,000) in the Governmental Activities and \$4,454,000 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 and GASB 75.
- Property tax revenue and Occupational License Fee collections continue to increase due to the strong local economy and increasing payrolls.
- During FY19, a misappropriation of funds was discovered. After further investigation it was discovered that a total of \$764,093 had been stolen from April 2013 – September 2019. A lack of proper oversight and internal procedural changes that were made without authorization led to an impairment of controls that would be used to monitor certain finance related activities. Enhanced controls and balancing procedures are being implemented to better monitor the finance activities of the City. These enhancements are detailed in the Schedule of Findings & Responses within this audit report.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2019
March 6, 2020

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

Assets	FY 17	FY 18	FY 19
Capital Assets			
Governmental Activities	\$ 10,346,000	\$ 11,632,000	\$ 11,701,000
Business-type Activities	66,461,000	66,607,000	68,031,000
Total Capital Assets	76,807,000	78,239,000	79,732,000
Current & Other Assets			
Governmental Activities	4,279,700	10,464,000	11,557,000
Business-type Activities	20,757,800	25,667,000	26,344,000
Total Current & Other Assets	25,037,500	36,131,000	37,901,000
Total Assets			
Governmental Activities	14,625,700	22,096,000	23,258,000
Business-type Activities	87,218,800	92,274,000	94,375,000
Total Assets	<u>\$ 101,844,500</u>	<u>\$ 114,370,000</u>	<u>\$ 117,633,000</u>
Liabilities			
Current & Other Liabilities			
Governmental Activities	\$ 805,000	\$ 1,774,000	\$ 1,972,000
Business-type Activities	4,899,000	6,562,000	6,806,000
Total Current & Other Liabilities	5,704,000	8,336,000	8,778,000
Long-term Liabilities			
Governmental Activities	8,293,000	15,430,000	15,188,000
Business-type Activities	15,408,000	20,344,000	19,804,000
Total Long-term Liabilities	23,701,000	35,774,000	34,992,000
Total Liabilities			
Governmental Activities	9,098,000	17,204,000	17,160,000
Business-type Activities	20,307,000	26,906,000	26,610,000
Total Liabilities	<u>29,405,000</u>	<u>44,110,000</u>	<u>43,770,000</u>

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2019
March 6, 2020

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

Net Position	FY 17	FY 18	FY 19
Governmental Activities	5,528,000	4,892,000	6,097,000
Business-type Activities	66,911,500	65,368,000	67,765,000
Total Net Position	72,439,500	70,260,000	73,862,000
Net Position, Details			
Invested in Capital Assets			
Governmental Activities	10,346,000	11,431,000	11,571,000
Business-type Activities	56,013,000	56,340,000	58,135,000
Total Capital Assets (net of debt)	66,359,000	67,771,000	69,706,000
Restricted Net Assets			
Governmental Activities	605,000	2,320,000	2,368,000
Business-type Activities	4,562,000	4,828,000	5,175,000
Total Restricted Net Assets	5,167,000	7,148,000	7,543,000
Unrestricted Net Assets			
Governmental Activities	(5,423,000)	(8,860,000)	(7,841,000)
Business-type Activities	6,335,000	4,200,000	4,454,000
Total Unrestricted Net Assets	\$ 912,000	\$ (4,660,000)	\$ (3,387,000)

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, 2019
March 6, 2020

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

	2017	2018	2019
Net Income	\$3,190,944	\$3,873,933	\$2,396,977
Less Contributed Capital Assets	(334,543)	(281,455)	(635,135)
Add Back:			
Depreciation	3,538,351	3,648,633	3,808,266
Interest Expense	403,282	384,856	361,943
Transfers Out	3,608,248	5,218,694	1,323,913
Total Revenues Available for Debt Service	\$ 10,406,282	\$ 12,844,661	\$ 7,255,964
Annual Parity Debt Service in years presented	\$1,374,856	\$1,460,095	\$1,460,095
Coverage	7.57	8.80	4.97

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 Fund Statements

The next two financial statements report only on governmental services:

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

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

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

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

- The June 30 Fund Balance, \$2,833,151 includes an Unassigned Balance of \$2,465,945, an increase of \$1,763,574 over the 6-30-18 figure. The remainder of the Fund Balance is restricted, assigned, or nonspendable.
- The affects of GASB 68 and 75 are not recorded on these financial statements.
- The Statement of Revenues and Expenditures shows that the General Fund revenues exceeded expenditures by \$1.79 million.

The Budgetary and Comparison Schedule - Major Funds reports on the City's compliance with budget adoption and execution requirements. The City did operate within its adopted budget, except for the Finance Department exceeding their budget by \$113,207.

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, increasing the percentage from .5% to 1%, effective 1-1-2017 has had 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, \$4,454,310 in Unrestricted Net Assets, less than the desired 16.7% of operating revenues, or two months coverage of operating expenses. This hinders 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 \$1,604,413, a \$1,681,387 decrease from the prior year.

The Statement of Cash Flows – Proprietary Funds reports Cash and Cash Equivalents of \$3,247,190 as of June 30, a decrease of \$2,869,248 due primarily to increased investment acquisition activity and reduced operational cash receipts caused by pension liability accounting.

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.)

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 were funded from tax revenues and investment income. The table also shows the Tax, Investment, and Miscellaneous Revenue generated to partially fund the Net Expenses of the governmental activities. The City allocates general overhead expenses to all departments. The accounting of the Utility Departments' share of those expenses is recorded as the "Transfer-Net" line on Table 3. However, a part of that transfer in the prior years from the utility operations is to cover the costs of governmental services not funded by General Fund revenues. The indirect cost allocation was discontinued for fiscal year 2019.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2019
March 6, 2020

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

	FY 17			FY 18			FY 19		
	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.	Expenses	Total P. Rev	Net Exp.
General Government	\$ 1,327,895	\$ 28,980	\$ 1,298,915	\$ 1,236,120	\$ 12,226	\$ 1,223,894	\$ 1,204,040	\$ 19,133	\$ 1,184,907
Finance	878,129	88,993	789,136	1,060,639	91,117	969,522	867,407	219,886	647,521
Public Safety	2,217,315	148,003	2,069,312	3,803,705	137,709	3,665,996	3,460,794	40,507	3,420,287
Fire	1,378,188	153,794	1,224,394	3,005,137	228,964	2,776,173	2,437,111	330,503	2,106,608
Recreation	437,664	114,826	322,838	682,337	135,494	546,843	659,636	155,307	504,329
COBEC	87,577	-	87,577	116,239		116,239	102,962		102,962
Streets	965,694	307,022	658,672	1,202,084	305,043	897,041	1,224,399	704,952	519,447
Cemetery	59,934	-	59,934	92,153	59,311	32,842	72,751	59,890	12,861
	\$ 7,352,396	\$ 841,618	\$ 6,510,778	\$ 11,198,414	\$ 969,864	\$ 10,228,550	\$ 10,029,100	\$ 1,530,178	\$ 8,498,922

Governmental Activities, General Revenues

Property Taxes	2,374,713		2,389,491		2,623,550
Restaurant Tax	550,218		555,361		655,647
Business and Occ. License Fees	3,145,751		5,164,884		5,786,684
Interest & Invest. Earnings	161		4,456		16,852
Misc.	359,153		198,084		625,296
Total Gen. Revenues		6,429,996		8,312,276	9,708,029
Transfers-Net		1,572,858		3,111,925	(3,725)
Change in Net Position		1,492,076		1,195,651	1,205,382
Net Position, Beginning of Year		4,035,963		5,528,039	4,892,013
Net Position-Restated				(1,831,677)	
Net Position, End of Year		\$ 5,528,039		\$ 4,892,013	\$ 6,097,395

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2019
March 6, 2020

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

Activity	FY 17			FY 18			FY 19		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	\$ 16,024,974	\$15,678,895	\$ 346,079	\$ 17,836,757	\$ 16,224,108	\$ 1,612,649	\$16,723,665	\$15,892,907	\$ 830,758
Water	4,567,969	4,456,010	111,959	4,855,855	5,164,657	(308,802)	4,772,798	5,434,253	(661,455)
Sewer	4,079,355	3,046,618	1,032,737	4,358,491	3,342,154	1,016,337	4,352,079	3,642,050	710,029
Cable Net	10,489,513	9,494,790	994,723	11,178,924	10,423,750	755,174	11,456,059	10,995,084	460,975
Garbage	1,545,681	1,378,330	167,351	1,615,748	1,405,306	210,442	1,693,607	1,429,501	264,106
Interest Exp		403,282	(403,282)		384,856	(384,856)		361,943	(361,943)
Totals	\$36,707,492	\$34,457,925	\$ 2,249,567	\$39,845,775	\$ 36,944,831	\$ 2,900,944	\$38,998,208	\$37,755,738	\$ 1,242,470

General Revenues, Business-type Activities

Interest & Invest. Earnings	36,808	132,551	273,572
Grants & Contributions	337,543	281,455	635,135
System Development Charges	153,220	163,283	241,325
Other	10,524	10,844	750
Less Net Transfers	(1,572,858)	(3,111,925)	3,725
Change in Net Position	1,214,804	377,152	2,396,977
Net Position, Beginning	65,696,691	66,911,495	65,367,644
Net Position-Restated		(1,921,003)	
Net Position, Ending	\$66,911,495	\$ 65,367,644	\$ 67,764,621

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 have produced positive results.

The increase of the occupational tax percentage, from .5% to 1% has helped the General Fund and has alleviated the use of funds transferred from the utility departments.

The major issue facing the City is the potential payment of the Net Pension Liability amount of \$17,839,568 and the Net Pension OPEB Liability of \$5,227,028. 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, 2019

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 4,491,127	\$ 3,247,190	\$ 7,738,317
Investments	830,812	10,345,709	11,176,521
Receivables, net	356,112	2,707,339	3,063,451
Internal balances	1,477,750	0	1,477,750
Inventory	16,546	1,796,637	1,813,183
Total Current Assets	7,172,347	18,096,875	25,269,222
Noncurrent Assets:			
Restricted cash and investments	185,580	5,175,293	5,360,873
Land held for resale	66,322	0	66,322
Capital assets, net (Note 5)	11,701,145	68,030,951	79,732,096
Total Noncurrent Assets	11,953,047	73,206,244	85,159,291
Deferred Outflows of Resources			
Deferred Outflows-Pension	3,170,191	2,356,641	5,526,832
Deferred Outflows-OPEB	962,568	715,549	1,678,117
Total Assets	\$ 23,258,153	\$ 94,375,309	\$ 117,633,462

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET POSITION (CONTINUED)
June 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Liabilities			
Current Liabilities:			
Accounts payable	\$ 983,160	\$ 3,477,700	\$ 4,460,860
Internal balances	509,267	968,483	1,477,750
Accrued taxes	18,984	23,879	42,863
Other liabilities	387,704	803,174	1,190,878
Loans payable	73,262	394,713	467,975
Bonds payable	0	1,138,433	1,138,433
Total Current Liabilities	1,972,377	6,806,382	8,778,759
Noncurrent liabilities:			
Loans payable (Note 6)	56,621	7,189,357	7,245,978
Bonds payable (Note 6)	0	1,173,430	1,173,430
Net Pension Liability (Note 7)	10,232,776	7,606,792	17,839,568
Net OPEB Liability (Note 8)	2,998,223	2,228,805	5,227,028
Total Noncurrent Liabilities	13,287,620	18,198,384	31,486,004
Total Liabilities	\$ 15,259,997	\$ 25,004,766	\$ 40,264,763
Deferred Inflows of Resources			
Deferred revenues-Pension	1,123,434	835,133	1,958,567
Deferred revenues-OPEB	777,327	577,846	1,355,173
Deferred revenues-Other	0	192,943	192,943
Total Deferred Inflows of Resources	1,900,761	1,605,922	3,506,683
Net Position			
Net investment in capital assets	\$ 11,571,262	\$ 58,135,018	\$ 69,706,280
Restricted for:			
Infrastructure	0	1,312,636	1,312,636
Inventory and receivables	1,911,278	0	1,911,278
Debt service	0	2,786,387	2,786,387
Special projects	456,437	1,076,270	1,532,707
Unrestricted	(7,841,582)	4,454,310	(3,387,272)
Total Net Position	\$ 6,097,395	\$ 67,764,621	\$ 73,862,016

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For The Fiscal Year Ended June 30, 2019

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		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ (1,204,040)	\$ 0	\$ 19,133	\$ 0	\$ (1,184,907)	\$ 0	\$ (1,184,907)
Finance	(867,407)	92,226	127,660	0	(647,521)	0	(647,521)
Public safety	(3,460,794)	40,507	0	0	(3,420,287)	0	(3,420,287)
Fire	(2,437,111)	19,946	310,557	0	(2,106,608)	0	(2,106,608)
Recreation	(659,636)	136,021	19,286	0	(504,329)	0	(504,329)
COBEC	(102,962)	0	0	0	(102,962)	0	(102,962)
Streets	(1,224,399)	127,203	368,229	209,520	(519,447)	0	(519,447)
Cemetery	(72,751)	59,890	0	0	(12,861)	0	(12,861)
Total Governmental Activities	(10,029,100)	475,793	844,865	209,520	(8,498,922)	0	(8,498,922)
Business-Type Activities:							
Electric	(15,892,907)	16,723,665	0	0	0	830,758	830,758
Water	(5,434,253)	4,772,798	0	169,810	0	(491,645)	(491,645)
Sewer system	(3,642,050)	4,352,079	0	465,325	0	1,175,354	1,175,354
CableNet	(10,995,084)	11,456,059	0	0	0	460,975	460,975
Garbage	(1,429,501)	1,693,607	0	0	0	264,106	264,106
Interest expense	(361,943)	0	0	0	0	(361,943)	(361,943)
Total Business-Type Activities	(37,755,738)	38,998,208	0	635,135	0	1,877,605	1,877,605
Total Government	<u>\$ (47,784,838)</u>	<u>\$ 39,474,001</u>	<u>\$ 844,865</u>	<u>\$ 844,655</u>	<u>\$ (8,498,922)</u>	<u>\$ 1,877,605</u>	<u>\$ (6,621,317)</u>

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
For The Fiscal Year Ended June 30, 2019

	Net (Expenses) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	\$ 2,623,550	\$ 0	\$ 2,623,550
Business and occupational licenses	5,786,684	0	5,786,684
Restaurant tax	655,647	0	655,647
Interest and investment earnings	16,852	273,572	290,424
System Development Charges	0	241,325	241,325
Other	222,519	750	223,269
Gain on sale of land held for investment	402,777	0	402,777
Transfers	(3,725)	3,725	0
	<u>9,704,304</u>	<u>519,372</u>	<u>10,223,676</u>
Change in Net Position	1,205,382	2,396,977	3,602,359
Net Position - Beginning	<u>4,892,013</u>	<u>65,367,644</u>	<u>70,259,657</u>
Net Position - Ending	<u>\$ 6,097,395</u>	<u>\$ 67,764,621</u>	<u>\$ 73,862,016</u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2019

	General	Non-Major Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Funds</u>	<u>Funds</u>
Assets			
Cash and cash equivalents	\$ 4,052,303	\$ 410,933	\$ 4,463,236
Investments	253,934	576,878	830,812
Restricted cash	0	9,867	9,867
Restricted investments	0	175,713	175,713
Accounts receivable	350,660	0	350,660
Inventory	16,546	0	16,546
Land held for resale	0	66,322	66,322
Internal balances	0	1,477,750	1,477,750
	<u>4,673,443</u>	<u>2,717,463</u>	<u>7,390,906</u>
Total Assets	<u><u>4,673,443</u></u>	<u><u>2,717,463</u></u>	<u><u>7,390,906</u></u>
Liabilities			
Accounts payable	924,337	13,076	937,413
Accrued payroll	387,704	0	387,704
Payroll taxes payable	18,984	0	18,984
Internal balances	509,267	0	509,267
	<u>1,840,292</u>	<u>13,076</u>	<u>1,853,368</u>
Total Liabilities	<u><u>1,840,292</u></u>	<u><u>13,076</u></u>	<u><u>1,853,368</u></u>
Fund Balances			
Nonspendable	367,206	1,544,072	1,911,278
Restricted			
Roads	0	283,261	283,261
Cemetery	0	185,580	185,580
Assigned			
Land Acquisition and Industrial Development	0	533,042	533,042
Public safety	0	15,391	15,391
Cemetery	0	143,041	143,041
Unassigned	2,465,945	0	2,465,945
	<u>2,833,151</u>	<u>2,704,387</u>	<u>5,537,538</u>
Total Fund Balances	<u><u>2,833,151</u></u>	<u><u>2,704,387</u></u>	<u><u>5,537,538</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 4,673,443</u></u>	<u><u>\$ 2,717,463</u></u>	<u><u>\$ 7,390,906</u></u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
June 30, 2019

	Total Governmental Funds
<hr/>	
Amounts reported for governmental activities in the statement of net assets are different because:	
Total Fund Balances - Total Governmental Funds	\$ 5,537,538
Allocation of internal service fund balances	(12,404)
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	11,701,145
Long-term debt, including bonds and capital leases, are not due and payable in the current period and therefore are not reported in the funds	(129,883)
Amounts related to the retirement plan for the entity, which are not expected to be liquidated using currently available expendable resources:	
Deferred Outflows-Pension	3,170,191
Net Pension Liability	(10,232,776)
Deferred Inflows-Pension	(1,123,434)
Deferred Outflows-OPEB	962,568
Net OPEB Liability	(2,998,223)
Deferred Inflows-OPEB	<u>(777,327)</u>
Net Position of Governmental Activities	<u>\$ 6,097,395</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
For The Fiscal Year Ended June 30, 2019

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 9,017,741	\$ 0	\$ 9,017,741
Business licenses	48,140	0	48,140
Fines and forfeitures	27,797	0	27,797
Intergovernmental	608,465	236,400	844,865
Charges for services	415,903	59,890	475,793
Interest	5,937	10,915	16,852
Other	175,347	19,375	194,722
Total Revenues	10,299,330	326,580	10,625,910
Expenditures			
Current:			
General government	543,815	542,520	1,086,335
Finance	809,227	0	809,227
Public safety	2,808,417	19,545	2,827,962
Fire	1,997,043	0	1,997,043
Recreation	569,733	0	569,733
COBEC	83,635	0	83,635
Streets	572,937	0	572,937
Cemetery	0	66,065	66,065
Capital outlay	1,047,882	0	1,047,882
Debt Payments	70,805	0	70,805
Total Expenditures	8,503,494	628,130	9,131,624
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,795,836	(301,550)	1,494,286
Other Financing Sources (Uses):			
Capital contributions	209,520	0	209,520
Gain on sale of land		402,777	402,777
Transfers in		60,000	60,000
Transfers out	(63,725)	0	(63,725)
Total Other Financing Sources (Uses)	145,795	462,777	608,572
Net Change in Fund Balance	1,941,631	161,227	2,102,858
Fund Balances, Beginning of Year	891,520	2,543,160	3,434,680
Fund Balances, End of Year	\$ 2,833,151	\$ 2,704,387	\$ 5,537,538

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)
For The Fiscal Year Ended June 30, 2019

	Total Governmental Funds
	<hr/>
Net Change in Fund Balances-Total Governmental Funds	\$ 2,102,858
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense reported in statement of activities	(978,990)
Capital outlay reported in governmental expenditures	1,047,882
Principal payments on long-term debt reported as governmental expenditures	70,805
Change in net position - self insurance fund	(50,389)
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	(986,784)
	<hr/>
Change in Net Position of Governmental Activities	\$ 1,205,382
	<hr/>

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, 2019

	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	\$ 3,247,190	\$ 0	\$ 0	\$ 3,247,190	\$ 27,891
Investments	10,345,709	0	0	10,345,709	0
Receivables (net of allowance for doubtful accounts, \$129,171)	2,707,339	0	0	2,707,339	5,452
Inventory-parts and supplies	1,796,637	0	0	1,796,637	0
Total Current Assets	18,096,875	0	0	18,096,875	33,343
Noncurrent Assets:					
Restricted Assets:					
Cash	0	8,756	756,199	764,955	0
Investments	0	0	4,410,338	4,410,338	0
Total Restricted Assets	0	8,756	5,166,537	5,175,293	0
Capital Assets:					
Land	1,840,516	0	0	1,840,516	0
Construction in Progress	449,470	0	0	449,470	0
Distribution systems	95,315,162	0	0	95,315,162	0
Plant and buildings	18,731,817	0	0	18,731,817	0
Vehicles and Equipment	13,466,244	0	0	13,466,244	0
Less accumulated depreciation	(61,772,258)	0	0	(61,772,258)	0
Capital Assets, Net of Accumulated Depreci:	68,030,951	0	0	68,030,951	0
Total Noncurrent Assets	68,030,951	8,756	5,166,537	73,206,244	0
Deferred Outflows of Resources					
Deferred Outflows-Pension	2,356,641	0	0	2,356,641	
Deferred Outflows-OPEB	715,549	0	0	715,549	0
Total Assets	\$ 89,200,016	\$ 8,756	\$ 5,166,537	\$ 94,375,309	\$ 33,343

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
June 30, 2019

	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	\$ 3,477,700	\$ 0	\$ 0	\$ 3,477,700	\$ 45,747
Accrued payroll taxes	23,879	0	0	23,879	0
Internal balances	968,483	0	0	968,483	0
Customer deposits	329,292	0	0	329,292	0
Accrued payroll	473,882	0	0	473,882	0
Bonds, notes, and loans payable	394,713	1,138,433	0	1,533,146	0
Total Current Liabilities	5,667,949	1,138,433	0	6,806,382	45,747
Noncurrent Liabilities:					
Bonds, notes, and loans payable	7,189,357	1,240,000	0	8,429,357	0
Unamortized issuance costs	0	(22,139)	0	(22,139)	0
Unamortized deferred refunding	0	(44,431)	0	(44,431)	0
Net Pension Liability	7,606,792	0	0	7,606,792	0
Net OPEB Liability	2,228,805	0	0	2,228,805	0
Total Noncurrent Liabilities	17,024,954	1,173,430	0	18,198,384	0
Total Liabilities	22,692,903	2,311,863	0	25,004,766	45,747
Deferred Inflows of Resources					
Deferred revenues-Pension	835,133	0	0	835,133	0
Deferred revenues-OPEB	577,846	0	0	577,846	0
Deferred revenues-Other	192,943	0	0	192,943	0
Total Deferred Inflows of Resources	1,605,922	0	0	1,605,922	0
Net Position					
Net investment in capital assets	60,446,881	(2,311,863)	0	58,135,018	0
Restricted for:					
Debt service	0	8,756	2,777,631	2,786,387	0
System capacity reserve	0	0	1,312,636	1,312,636	0
Other purposes	0	0	1,076,270	1,076,270	(12,404)
Unrestricted	4,454,310	0	0	4,454,310	0
Total Net Position	64,901,191	(2,303,107)	5,166,537	67,764,621	(12,404)
Total Liabilities and Net Position	\$ 89,200,016	\$ 8,756	\$ 5,166,537	\$ 94,375,309	\$ 33,343

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
For The Fiscal Year Ended June 30, 2019

	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	\$ 38,025,435	\$ 0	\$ 0	\$ 38,025,435	\$ 1,063,203
Utility surcharge	87,630	0	0	87,630	0
Connection fees	180,355	0	0	180,355	0
System development charges	0	0	241,325	241,325	0
Contract services	255,790	0	0	255,790	0
Penalties	322,727	0	0	322,727	0
Miscellaneous	126,271	0	0	126,271	0
Total Operating Revenues	38,998,208	0	241,325	39,239,533	1,063,203
Operating Expenses:					
Purchases for resale	18,932,096	0	0	18,932,096	0
Personal services	6,704,355	0	0	6,704,355	0
Contractual services	1,575,678	0	0	1,575,678	0
Materials and supplies	2,020,885	0	0	2,020,885	0
Maintenance and repairs	1,477,636	0	0	1,477,636	0
Other expenses	2,874,879	0	0	2,874,879	1,113,706
Depreciation	3,808,266	0	0	3,808,266	0
Total Operating Expenses	37,393,795	0	0	37,393,795	1,113,706
Income (Loss) from Operations	1,604,413	0	241,325	1,845,738	(50,503)
Nonoperating Revenues (Expenses):					
Investment earnings	202,373	36	71,163	273,572	114
Lease revenue	750	0	0	750	0
Interest expense	(202,071)	(159,872)	0	(361,943)	0
Total Nonoperating Revenues (Expenses)	1,052	(159,836)	71,163	(87,621)	114
Income (Loss) Before Contributions and Transfers	1,605,465	(159,836)	312,488	1,758,117	(50,389)
Capital contributions	635,135	0	0	635,135	0
Transfers in	34,333	1,258,305	35,000	1,327,638	0
Transfers out	(1,323,913)	0	0	(1,323,913)	0
Change in Net Position	951,020	1,098,469	347,488	2,396,977	(50,389)
Net Position, Beginning of Year	63,950,171	(3,401,576)	4,819,049	65,367,644	37,985
Net Position, End of Year	\$ 64,901,191	\$ (2,303,107)	\$ 5,166,537	\$ 67,764,621	\$ (12,404)

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2019

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 39,079,639	\$ 1,092,148
Cash payments to suppliers for good and services	(25,677,804)	(1,113,719)
Cash payments to employees for services	(6,797,486)	0
Other operating cash receipts	1,195,902	0
Net Cash Provided by Operating Activities	7,800,251	(21,571)
Cash Flows From Non-Capital Financing Activities		
Transfers from other funds	1,327,638	0
Transfers to other funds	(1,323,913)	0
Net Cash Used by Non-Capital Financing Activities	3,725	0
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(5,232,051)	0
Change in pension liability	(693,898)	0
Proceeds from debt	1,088,603	0
Principal paid on capital debt	(1,460,095)	0
Interest paid on capital debt	(361,943)	0
Contributed capital	635,135	0
Other receipts	750	0
Net Cash Used by Capital and Related Financing Activities	(6,023,499)	0
Cash Flows From Investing Activities		
Acquisition of investments	(4,923,297)	0
Interest and dividends	273,572	114
Net Cash Provided by Investing Activities	(4,649,725)	114
Net Increase in Cash and Cash Equivalents	(2,869,248)	(21,457)
Cash and Cash Equivalents, Beginning of Year	6,116,438	49,348
Cash and Cash Equivalents, End of Year	\$ 3,247,190	\$ 27,891

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
For The Fiscal Year Ended June 30, 2019

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Reconciliation of Income from Operations to Net Cash Provided by Operating Activities:		
Income from operations	\$ 1,845,738	\$ (50,503)
Adjustments to reconcile operating income from operations to net cash provided by operating activities:		
Depreciation	3,808,267	0
Change in assets and liabilities:		
(Increase) Decrease in receivables, net	455,543	28,945
(Increase) Decrease in inventory	61,582	
Increase (Decrease) in deferred inflows	859,055	0
Increase (Decrease) in accounts and other payables	282,732	(13)
Increase (Decrease) in customer deposits	(18,196)	0
Increase (Decrease) in deferred revenues	598,661	0
Increase (Decrease) in accrued payroll	(93,131)	0
Net Cash Provided by Operating Activities	<u>\$ 7,800,251</u>	<u>\$ (21,571)</u>

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

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, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the transfers between the Utilities Fund and the General Fund.

Transfers during fiscal year 2019 include both operating transfers and increases to restricted funds. During fiscal year 2019, the Combined Utility Operating Fund transferred \$1,258,305 for the annual debt service payments. There were no transfers from the Combined Utility Operating Fund to the General Fund during this fiscal year.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utilities are charges to the customers for services. Principal operating revenues of the internal service fund are the premiums charged to individual departments and the employees for insurance coverage. The employees pay a set amount each month. The departments' premiums are based on claims paid and administrative fees charged by third party administrators. The City's utilities also recognize as operating revenue tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise (utility) funds include the cost of sales and services, personnel, administrative expenses, and depreciation on capital assets. Operating expenses of the Internal Service (Self-insurance) fund include medical claims and third-party administrative fees. All revenues and expenses not meeting the above definitions are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Receivables and Payables

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

All trade and property tax receivables, including those for the utilities, are shown net of an allowance for uncollectible. Trade accounts that are classified as inactive have been included in the allowance for uncollectible. Property taxes are secured by a lien on the property, but uncollected amounts are fully reserved as of June 30, 2019.

Cash Equivalents

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

Inventories and Prepaid Items

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

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

Restricted Assets

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

The Operations and Maintenance Reserve reflects resources that have been set aside to subsidize potential deficiencies from the utility operations that could adversely affect debt service payments.

The 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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets (Continued)

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.

Tax Abatements

GASB Statement No 77 – Tax Abatement Disclosures is effective for reporting periods beginning after December 15, 2015. The requirements of this statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public presently. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

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, 2019

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, 2019

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, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Pensions and OPEB

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2018.

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 resource's 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.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 3 – Deposits and Investments

A. Deposits

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, 2019, deposits in all bank account were covered by FDIC insurance or a properly executed collateral security agreement.

B. Investments

As of June 30, 2019, the City has the following investments and maturities:

	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value Total
Unrestricted Investments				
Certificates of Deposit	\$ 0	\$ 615,619	\$ 0	\$ 615,619
U.S. Treasury Securities	10,560,902			10,560,902
Total Nonrestricted	10,560,902	615,619		11,176,521
Restricted Investments				
Certificates of Deposit		4,000,510		4,000,510
U.S. Treasury Securities	585,541			585,541
Total Restricted	585,541	4,000,510		4,586,051
	<u>\$ 11,146,443</u>	<u>\$ 4,616,129</u>	<u>\$ 0</u>	<u>\$ 15,762,572</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 3 – Deposits and Investments (Continued)

Level 1 Quoted prices in active market for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, inputs of which are market - based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

At June 30, 2019, the City's U.S. Treasury Securities were Level 1 inputs and the Certificates of Deposit were a Level 2 input.

Custodial Credit Risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires counterparties to provide sufficient collateral or other insurance if any investments or deposits exceed the insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). The City's investments in securities are held by the counterparty's trust department in the City's name. The City does not record any investments at amortized costs.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City is statutorily limited as to credit ratings, at the time of purchase. KRS 66.480 and the City's investment policy defines the following items as permissible investments:

- 1) Obligations of the United States and of its agencies and instrumentalities.
- 2) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States government agency.
- 3) Obligations of any corporation of the United States Government.
- 4) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution having a physical presence in Kentucky which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds, permitted by KRS 41.240(4).

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 3 – Deposits and Investments (Continued)

- 5) Uncollateralized certificates of deposit issued by any bank or savings and loan institution having a physical presence in Kentucky rated in one of the three highest categories by a nationally recognized rating agency.
- 6) Bankers' acceptances for banks rated in one of the three highest categories by a competent rating agency.
- 7) Commercial paper rated in the highest category by a nationally recognized rating agency.
- 8) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- 9) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one of the three highest categories by a competent rating agency.
- 10) Shares of mutual funds and exchange traded funds, each of which shall have the following characteristics:
 - a) The mutual funds shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended.
 - b) The management company of the investment company shall have been in operation for at least five years.
 - c) All of the securities in the mutual fund shall be eligible investments pursuant to this section.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. U.S. Government securities and investments in mutual funds are excluded from this risk.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's policy provides that, to the extent predictable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. See table above for investments listed by type and duration.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The City's policy historically has been to invest only in securities in U.S. denominations.

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 2019 fiscal year was \$.179 per \$100 of assessed valuation for real estate and \$.179 for personal property.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Primary Government		
	Balance	Additions/	Retirements/
	July 1, 2018	Completions	Adjustments
			Balance
			June 30, 2019
Governmental activities:			
Capital assets not depreciated			
Land	\$ 698,355		\$ 698,355
Capital assets depreciated			
Buildings and improvements	3,763,163		3,763,163
Improvements other than buildings	1,388,662	43,000	1,431,662
Vehicles	2,257,932	212,692	(68,445) 2,402,179
Equipment	2,326,266		2,326,266
Infrastructure	19,475,459	792,190	20,267,649
Total assets depreciated at historical cost	29,211,482	1,047,882	(68,445) 30,190,919
Buildings and improvements	(1,653,406)	(109,147)	(1,762,553)
Improvements other than buildings	(1,197,460)	(18,106)	(1,215,566)
Vehicles	(1,682,934)	(197,203)	68,445 (1,811,692)
Equipment	(1,327,869)	(103,751)	(1,431,620)
Infrastructure	(12,415,915)	(550,783)	(12,966,698)
Total accumulated depreciation	(18,277,584)	(978,990)	68,445 (19,188,129)
Depreciable capital assets, net	10,933,898	68,892	11,002,790
Governmental activities capital assets, net	\$ 11,632,253	\$ 68,892	\$ 11,701,145

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 5 – Capital Assets (Continued)

	Primary Government		
	Balance	Additions/	Retirements/
	July 1, 2018	Completions	Adjustments
Business-type activities:			
Capital assets not depreciated			
Land	\$ 1,831,297	9,219	
Construction in Progress		449,470	
	1,831,297	458,689	
Capital assets depreciated			
Plant facilities	16,671,503		
Other improvements	2,037,961	22,353	
Vehicles	1,392,241	92,471	(13,280)
Equipment	10,931,732	1,063,080	
Infrastructure	91,719,704	3,595,458	
Total assets depreciable at historical cost	122,753,141	4,773,362	(13,280)
Plant facilities	(12,922,036)	(392,068)	
Other improvements	(1,503,965)	(71,956)	
Vehicles	(1,082,764)	(91,392)	13,280
Equipment	(5,169,163)	(760,397)	
Infrastructure	(37,299,343)	(2,492,454)	
Total accumulated depreciation:	(57,977,271)	(3,808,267)	13,280
Depreciable capital assets, net	64,775,870	965,095	
Business-type activities capital assets, net	\$ 66,607,167	\$1,423,784	\$ 0

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 592,163
Protection to persons and property	293,055
General government	51,920
Recreation	41,385
Cemetery	<u>467</u>
Total governmental depreciation expense	<u><u>\$ 978,990</u></u>

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

Electric	\$ 484,111
Water	1,409,413
Sewer system	965,000
CableNet	871,189
Garbage	<u>78,554</u>
Total business-type depreciation expense	<u><u>\$ 3,808,267</u></u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 6 – Long-Term Liabilities

- A. 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 December 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, 2019 was \$2,445,000. Future principal and interest requirements are:

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
2020	\$ 1,205,000	\$ 57,755
2021	1,240,000	19,840
Total	<u>\$ 2,445,000</u>	<u>\$ 77,595</u>

- B. 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 twenty-year agreement requires principal and interest payments due in June and December. The balance of the loan as of June 30, 2019 was \$1,291,538. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2020	\$ 84,228	\$ 25,412
2021	85,921	23,719
2022	87,648	21,992
2023	89,410	20,230
2024	91,207	18,433
2025-2029	484,284	63,917
2030-2033	368,840	14,901
Total	<u>\$ 1,291,538</u>	<u>\$ 188,604</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 6 – Long-Term Liabilities (Continued)

- C. 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 twenty-year agreement requires principal and interest payments due monthly. The balance of the loan as of June 30, 2019 was \$2,621,762. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2020	\$ 156,417	\$ 76,514
2021	161,175	71,756
2022	166,077	66,854
2023	171,129	61,802
2024	176,334	56,697
2025-2029	965,456	199,203
2030-2033	825,174	48,317
Total	<u>\$ 2,621,762</u>	<u>\$ 581,143</u>

- D. 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, 2019 was \$1,439,188. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Business-Type Activities		
2020	\$ 77,680	\$ 42,113
2021	80,042	39,751
2022	82,477	37,317
2023	84,986	34,807
2024	87,571	32,223
2025-2029	479,463	119,502
2030-2034	546,969	42,013
	<u>\$ 1,439,188</u>	<u>\$ 347,726</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 6 – Long-Term Liabilities (Continued)

- E. The City of Bardstown, Kentucky has a loan agreement with the Kentucky Infrastructure Authority for \$1,220,499. This loan is for the financing of a water capital project, with an interest rate of 1.75% 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, 2019 was \$1,142,978. Future principal and interest requirements are:

Business-Type Activities	Loan Payable	
	Principal	Interest
2020	\$ 52,818	\$ 19,772
2021	53,746	18,844
2022	54,691	17,899
2023	55,652	16,938
2024	56,630	15,960
2025-2029	298,437	64,513
2030-2034	325,603	37,347
2035-2038	245,401	8,664
	<u>\$ 1,142,978</u>	<u>\$ 199,937</u>

- F. The City of Bardstown, Kentucky has a loan agreement with the Kentucky Infrastructure Authority for \$1,123,048. This loan is for the financing of a water capital project, with an interest rate of 1.75% 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, 2019 was \$1,088,603, with \$34,445 received in July 2019. Future principal and interest requirements are:

Business-Type Activities	Loan Payable	
	Principal	Interest
2020	\$ 23,570	\$ 9,827
2021	47,761	19,033
2022	48,601	18,193
2023	49,455	17,339
2024	50,324	16,470
2025-2029	265,204	68,766
2030-2034	289,344	44,625
2035-2039	315,682	18,288
2040	33,107	290
	<u>\$ 1,123,048</u>	<u>\$ 212,831</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 6 – Long-Term Liabilities (Continued)

G. The City of Bardstown, Kentucky has a loan agreement with the WesBanco Bank, Inc. for \$218,000. This loan is for the financing of equipment for the Fire Department with an interest rate of 3.38% per year. This three-year agreement requires principal and interest payments due monthly. The balance of the loan as of June 30, 2019 was \$129,883. Future principal and interest requirements are:

	Loan Payable	
	Principal	Interest
Governmental Activities		
2020	\$ 73,262	\$ 3,317
2021	56,621	814
	<u>\$ 129,883</u>	<u>\$ 4,131</u>

Changes during fiscal year 2019 and balances as of June 30, 2019, including the current portions, of the debt were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Other liabilities:					
Loan payable	\$ 200,688	\$ 0	\$ (70,805)	\$ 129,883	\$ 73,262
Total other liabilities	<u>\$ 200,688</u>	<u>\$ 0</u>	<u>(70,805)</u>	<u>\$ 129,883</u>	<u>\$ 73,262</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Loan Payables	6,857,129	1,088,603	(361,662)	7,584,070	394,713
General Obligation Bonds, Series 2010	3,610,000		(1,165,000)	2,445,000	1,205,000
	<u>10,467,129</u>	<u>1,088,603</u>	<u>(1,526,662)</u>	<u>10,029,070</u>	<u>1,599,713</u>
Less:					
Unamortized issuance costs	66,419		(22,140)	44,279	22,140
Deferred amount on refunding	133,285		(44,427)	88,858	44,427
Total bonds and notes payable	<u>10,267,425</u>	<u>1,088,603</u>	<u>(1,460,095)</u>	<u>9,895,933</u>	<u>1,533,146</u>
Business-type activities					
Long-term liabilities	<u>\$ 10,267,425</u>	<u>\$ 1,088,603</u>	<u>\$ (1,460,095)</u>	<u>\$ 9,895,933</u>	<u>\$ 1,533,146</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan

Plan Description

The City has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 61.645 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. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions

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 an additional 1% to cover the cost of medical insurance that is provided through CERS. The City's contribution rate for nonhazardous employees was 21.48 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account, and 1% will go to the KRS insurance fund. The City's contribution rate for hazardous employees was 35.34 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>
2019	\$ 963,318	\$ 745,581
2018	\$ 772,717	\$ 600,523
2017	\$ 780,916	\$ 640,725

The City contributed \$1,708,899 for the year ended June 30, 2019, or 100% of the required contribution. The contribution was allocated \$775,954 to the CERS pension fund and \$187,364 to the CERS insurance fund for non-hazardous, and \$572,349 to the CERS pension fund and \$173,232 to the CERS insurance fund for hazardous duty.

Nonhazardous

Benefits fully vest on reaching five years of service for nonhazardous employees. The table below shows additional relevant information concerning nonhazardous employee retirement benefits.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Nonhazardous

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
	Participation Prior To 9/1/2008 Defined Benefit	Participation 9/1/2008 Through 12/31/13 Defined Benefit	Participation on or After 1/1/2014 Cash Balance Plan
Covered Employees:	Substantially all regular full-time members employed in non-hazardous duty positions of any particular employer.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	Five complete fiscals years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation
Benefit Factor:	1.97% or 2% for those retiring with service for all months between 1/1998 and 1/1999.	Ten years or less=1.10%. Greater than 10 years, but no more than 20 years =1.30%. Greater than 20 years, but no more than 26 years=1.50%. Greater than 26 years, but no more than 30 years=1.75%. Additional years above 30=2.0%. (2.0% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service.	No Money Purchase calculations.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Nonhazardous

	Tier I	Tier 2	Tier 3
	Participation Prior To 9/1/2008 Defined Benefit	Participation 9/1/2008 Through 12/31/13 Defined Benefit	Participation on or After 1/1/2014 Cash Balance Plan
Reduced Retirement Benefit/Penalty on Reduced benefit:	Any age with 25 years of service. Age 55 with 5 years of service. Penalty - 6.5% per year for the first 5 years and 4.5% per year for the next 5 years away from 27 years or age 65.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military) Penalty-6.5% per year for the first 5 years and 4.5% per year for the next 5 years away from the rule of 87 or age 65, if age 60 with 10 years of service.	No reduced retirement benefit.
Employee Contributions:	5% total member contribution	6% total member contribution: 5% to defined benefit pension and 1% health insurance contribution	6% total member contribution: 5% to defined benefit pension and 1% health insurance contribution

Hazardous

Benefits fully vest on reaching five years of service for hazardous employees. The table below shows additional information concerning hazardous employee retirement benefits.

	Tier I	Tier 2	Tier 3
	Participation Prior To 9/1/2008 Defined Benefit	Participation 9/1/2008 Through 12/31/13 Defined Benefit	Participation on or After 1/1/2014 Cash Balance Plan
Covered Employees:	Substantially all regular full-time members employed in hazardous duty positions of any particular employer.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Hazardous

	Tier 1	Tier 2	Tier 3
	Participation Prior To 9/1/2008 Defined Benefit	Participation 9/1/2008 Through 12/31/13 Defined Benefit	Participation on or After 1/1/2014 Cash Balance Plan
Final Compensation:	Average of the highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	Average of the 3 highest fiscal years; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation
Benefit Factor:	2.50%	Ten years or less=1.30%. Greater than 10 years, but no more than 20 years =1.50%. Greater than 20 years, but no more than 25 years=2.25%. Greater than 25 years=2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Unreduced Retirement Benefit:	Any age with 20 years of service. Age 55 with 60 months of service. Money Purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service.	No Money Purchase calculations.
Reduced Retirement Benefit/Penalty on Reduced benefit:	Age 50 with 15 years of service. Penalty - 6.5% per year for the first 5 years and 4.5% per year for the next 5 years away from 20 years or age 55.	Age 50 with 15 years of service. Excludes purchased service (exception: refunds, omitted, free military) Penalty-about 6.5% for each year away from 25 years or age 60.	No reduced retirement benefit.
Employee Contributions:	8% total member contribution	9% total member contribution: 8% to defined benefit pension and 1% health insurance contribution	9% total member contribution: 8% to defined benefit pension and 1% health insurance contribution

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Pension Liabilities

As of June 30, 2019, the City has recorded a liability of \$17,839,568, 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, 2018, 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, 2018, the City's proportion was .332598% for hazardous and .160843% for nonhazardous, which is a decrease of .038212% for hazardous and a decrease of .008708% for non-hazardous from its proportion as of June 30, 2017.

As of June 30, 2019, the City reported a pension expense associated with the underfunding of the pension of \$363,485 in the Governmental Activities and \$603,804 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, 2018, 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.

Actuarial Assumptions

The total pension liability determined for KRS in the June 30, 2018 proportionate share report was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 through June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	27 years, closed
Payroll Growth	4.00%
Asset Valuation Method	20% of the difference the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00% average
Investment rate of return	7.5%, net of pension plan investment expense

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major class are summarized in the table below.

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 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:

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Actuarial Assumptions

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	11.00%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	100%	

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 28-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.

June 30, 2018 is the actuarial valuation date upon which the total pension liability is based. An expected total pension liability is determined as of June 30, 2018, using standard roll forward procedures. The discount rate is defined as the single rate of return that, when applied to all projected payments, results in an actuarial value of projected benefit payments. The long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability for each system. A municipal bond rate was not used.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Discount Rate

The following table presents the net pension liability of the City, calculated using the discount rate of 6.25%, as well as what the City's net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.25%) or one percentage point higher (7.25%):

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	5.25%	\$ 22,410,213
Current discount rate	6.25%	\$ 17,839,568
1% increase	7.25%	\$ 14,032,829

Deferred Inflows/Outflows of Resources

As of June 30, 2019, the City reported deferred outflows of \$3,170,191 in the Governmental Activities, and \$2,356,641 in the Business-type Activities. Included in the total deferred outflows are the pension expense payments actually made in fiscal year 2019, which will be deferred as an expense until the fiscal year 2020, because they were paid subsequent to the measurement date of June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$ 959,659	\$ 143,390
Changes of assumptions	1,813,566	
Net difference between projected and actual earnings on Plan investments	753,657	961,844
Changes in proportion and differences between City contributions and proportionate share of contributions	239,435	853,333
City contributions subsequent to the measurement date	<u>1,760,515</u>	
	<u>\$ 5,526,832</u>	<u>\$ 1,958,567</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Deferred Inflows/Outflows of Resources

As of June 30, 2019, the City reported deferred inflows of \$919,020 in the Governmental Activities, and \$683,177 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, 2018 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, 2018, the City's proportion was .37081% for hazardous and .169546% for nonhazardous, which was which is an increase of .036355% for hazardous and a decrease of .002457% for non-hazardous from its proportion as of June 30, 2017.

Included in Deferred Inflows on the financial statements is \$192,943 in deferred revenue for the electric and cable departments.

The \$1,760,515 of the total deferred outflows of resources resulted from pension contributions made subsequent to the measurement date and will be recognized as a reduction of the new pension liability for the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows related to pension will be recognized in pension expense as follows:

Year ending June 30,	
2020	\$ 1,567,314
2021	613,226
2022	(283,891)
2023	(88,898)

Pension Plan Fiduciary Net Position

The City's fiduciary net position, net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense have been determined on the same basis used by CERS. The combining financial statements of CERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 7 – Retirement Plan (Continued)

Pension Plan Fiduciary Net Position

are recorded on the dividend date. Gain (loss) on investments includes CERS gains and losses on investments bought and sold as well as held during the fiscal year.

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 – Post-Employment Benefits Other Than Pensions (OPEB)

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement System's Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publically available financial report that can be obtained by writing to the Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601 or by telephone at (502) 564-4646. This report can also be obtained at www.kyret.ky.gov.

OPEB Proportionate Share Liability

As of June 30, 2019, the City reported a liability of \$5,227,028 for its proportionate share of the collective net OPEB liability. The total and net OPEB liability for CERS was actuarially measured as of June 30, 2018. As of June 30, 2018, the City's proportionate share percentage was .332616% for hazardous and .160836% for non-hazardous. This percentage is based on the long-term share of contributions by the fiscal court in relation to all other participating employers in CERS. KRS 78.510 through KRS 78.880 establishes and governs this plan. CERS information is available in the publicly issued financial report issued by the Kentucky Retirement System.

Benefits Provided

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, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Benefits Provided

<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.

Death benefit – If a retired member is receiving a monthly benefit based on at least 48 months of service credit, KRS will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. Members with multiple accounts are entitled to only one death benefit.

Contributions

For the fiscal year ended June 30, 2019, plan members who began participating prior to September 1, 2008, were required to contribute 0 percent of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008, and before January 1, 2014, were required to contribute 1 percent of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014, were required to contribute 1 percent of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per KRS 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board of Trustees may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Contributions

basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The City's contractually required contribution rate for the year ended June 30, 2019 was 5.26% of annual creditable compensation for non-hazardous employees and 10.48% of annual creditable compensation for hazardous employees. Contributions to the plan from the City were \$221,445 for nonhazardous and \$158,641 for hazardous.

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources

At June 30 2019, the City reported a liability of \$2,371,417 for hazardous and \$2,855,611 for nonhazardous, totaling \$5,227,028 for its proportionate share of its net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net OPEB liability was based upon a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2018, the City's proportionate share was .332616 percent for hazardous and .160836 percent for nonhazardous, which was a decrease of .038194 for hazardous and a decrease of .00871 for nonhazardous from its proportionate share measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized OPEB expense of \$346,630 for hazardous and \$337,601 for nonhazardous, totaling \$684,231. At June 30, 2019, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 597,797
Changes of assumptions	1,298,031	13,085
Implicit Subsidy	36,625	
Net difference between projected and actual earnings on Plan investments		422,142
Changes in proportion and differences between City contributions and proportionate share of contributions		322,149
City contributions subsequent to the measurement date	343,461	
	<u>\$ 1,678,117</u>	<u>\$ 1,355,173</u>

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources (Continued)

Of the total amount reported as deferred outflows of resources related to OPEB, \$343,461 resulting from the City's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year ending June 30,		
2020	\$	74,471
2021		74,471
2022		(56,441)
2023		(71,857)
2024		(51,490)
Thereafter		(26,361)

Actuarial Valuation

The total pension liability determined for KRS in the June 30, 2018 proportionate share report was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	2.30%
Salary Increases	3.05% to 15.55%
Investment rate of return	6.25%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50 percent for males and 30 percent 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 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial Valuation (Continued)

Several factors are considered in evaluation the long-term rate of return assumption, 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 adding expected inflation.

The capital market assumptions developed by the investment consultant are intended for use over a ten-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 asset allocation and best estimates of arithmetic nominal 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 Expected Real Rate of Return</u>
US Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	11.00%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	100%	

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial Valuation (Continued)

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 28-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.

June 30, 2018 is the actuarial valuation date upon which the total OPEB liability is based. An expected total OPEB liability is determined as of June 30, 2017, using standard roll forward procedures. The discount rate is defined as the single rate of return that, when applied to all projected payments, results in an actuarial value of projected benefit payments. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. A municipal bond rate was not used.

Actuarial Assumptions Used to Determine the Actuarially Determined Contributions

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 through June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	27 years, closed
Payroll Growth	4.00%
Asset Valuation Method	20% of the difference the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00% average
Investment rate of return	7.5%, net of pension plan investment expense

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the net OPEB liability of the City. Calculated using the discount rate of 5.85% nonhazardous and 5.97% hazardous, as well as what the fiscal court's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85% nonhazardous and 4.97% hazardous) or one percentage point higher (6.85% nonhazardous and 6.97% hazardous):

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate (Continued)

	Hazardous Discount Rate	City's Proportionate Share of Net Pension Liability	Non-Hazardous Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	4.97%	\$ 3,296,387	4.85%	\$ 3,708,981
Current discount rate	5.97%	\$ 2,371,417	5.85%	\$ 2,855,611
1% increase	6.97%	\$ 1,630,955	6.85%	\$ 2,128,696

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the OPEB liability of the City, calculated using the current healthcare trend rate, as well as what the City's net OPEB liability would be if it were calculated using a healthcare cost trend that is one percentage point lower or one percentage point higher:

	Hazardous Healthcare Cost Trend Rate	City's Proportionate Share of Net Pension Liability	Non-Hazardous Healthcare Cost Trend Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.50%	\$ 1,615,049	6.50%	\$ 2,126,031
Current discount rate	7.50%	\$ 2,371,417	7.50%	\$ 2,855,611
1% increase	8.50%	\$ 3,308,210	8.50%	\$ 3,715,576

The initial healthcare trend rate for the pre-65 category starts at 7.0% and gradually decreases to an ultimate rate of 4.05 % over a period of 12 years.

The initial healthcare trend rate for the post-65 category starts at 5.0% and gradually decreases to an ultimate trend rate of 4.05% over a period of 10 years.

OPEB Plan Fiduciary Net Position

The City's fiduciary net position, net OPEB liability, deferred inflows and outflows of resources related to OPEB, and OPEB expense have been determined on the same basis used by CERS. The combining financial statements of CERS are prepared using the accrual basis of accounting. Plan member

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 8 – Post-Employment Benefits Other Than Pensions (OPEB) (Continued)

OPEB Plan Fiduciary Net Position (Continued)

contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on the dividend date. Gain (loss) on investments includes CERS gains and losses on investments bought and sold as well as held during the fiscal year.

Detailed information about the OPEB plan is available in the separately issued CERS financial report

Note 9 – 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, 2019, the audits of these grants and programs were complete through 2018 and the City's compliance with applicable requirements has been established. The City's compliance with applicable requirements for 2019 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 10 – Risk Management

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

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 10 – Risk Management (Continued)

Coverage by KLCIS consists of \$5,000,000 in general liability insurance with \$5,000 deductible. 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 \$70,000 per participant. Monthly payments also include a specified amount to set aside funds for payment of claims that do not exceed the \$70,000 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.

Changes in the fund's claims liability amounts are:

	<u>2018</u>	<u>2019</u>
Year	\$ 55,887	\$ 45,760
Current year claims	1,391,432	1,113,693
Claims paid	<u>(1,401,559)</u>	<u>(1,113,706)</u>
Balance at End of Year	<u><u>\$ 45,760</u></u>	<u><u>\$ 45,747</u></u>

Note 11 – Tax Abatements

The City has agreements to abate real and tangible property taxes with three companies in order to promote new business in the City based upon prescribed criteria. During the year, the City abated \$78,137 of real and tangible tax.

The City also has agreements with three other companies to abate occupational tax if they meet the criteria. It is unknown if any occupational tax was abated during this fiscal year.

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2019

Note 12 – 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 2019.

Organization	Contribution
Planning Commission	\$ 53,680
Nelson County Economic Development Agency	66,000
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. Formerly BIDC and the City split proceeds from land sales based on the respective contributions. Currently the total proceeds are passed through to BIDC.

Note 13 – Subsequent Events

Management has evaluated subsequent events through March 6, 2020, the date which the financial statements were available to be issued. No other subsequent events have occurred.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION-CASH BASIS
BUDGETARY COMPARISON INFORMATION
For The Fiscal Year Ended June 30, 2019

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 7,669,500	\$ 8,284,500	\$ 9,017,741	\$ 733,241
Licenses and permits	34,500	34,500	48,140	13,640
Fines and forfeitures	50,000	50,000	27,797	(22,203)
Intergovernmental revenues	578,000	677,000	608,465	(68,535)
Charges for services	236,000	282,000	415,903	133,903
Interest	2,000	2,000	5,937	3,937
Other	157,000	179,700	175,347	(4,353)
Total Revenues	8,727,000	9,509,700	10,299,330	789,630
Expenditures:				
Current:				
General government	595,283	614,183	543,815	70,368
Finance	691,020	696,020	809,227	(113,207)
Public safety	2,930,800	2,930,800	2,808,417	122,383
Fire	2,031,050	2,067,300	1,997,043	70,257
Recreation	572,350	577,350	569,733	7,617
COBEC	85,050	85,050	83,635	1,415
Streets	736,900	742,040	572,937	169,103
Capital outlay	1,098,000	1,098,000	1,047,882	50,118
Debt service	76,580	76,580	70,805	5,775
Total Expenditures	8,817,033	8,887,323	8,503,494	383,829
Excess (Deficiency) of Revenues over Expenditures Before Other Financing Sources (Uses)	(90,033)	622,377	1,795,836	1,173,459
Other Financing Sources (Uses):				
Capital contributions	0	0	209,520	209,520
Transfers in	308,550	308,550	0	(308,550)
Transfers out	(96,000)	(96,000)	(63,725)	32,275
Total Other Financing Sources (Uses)	212,550	212,550	145,795	(66,755)
Net Change in Fund Balance	122,517	834,927	1,941,631	1,106,704
Fund Balances, Beginning of Year	0	0	891,520	891,520
Fund Balances, End of Year	\$ 122,517	\$ 834,927	\$ 2,833,151	\$ 1,998,224

Expenditures in the General Fund exceeded the budgeted amounts by \$113,207 in the Finance department.

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -CASH BASIS
BUDGETARY COMPARISON INFORMATION (CONTINUED)
For The Fiscal Year Ended June 30, 2019

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The Mayor is required to submit estimated receipts and proposed disbursements to the City Council by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The City may change the original budget by transferring appropriations at the activity level; however, the City may not increase the total budget without approval by the City Council. Disbursements may not exceed budgeted appropriations at the activity level.

CITY OF BARDSTOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For The Last Five Fiscal Years Ended June 30, 2019

	2019	2018	2017	2016	2015
City's proportion of the net pension liability-hazardous	0.33260%	0.37081%	0.33445%	0.32272%	0.32882%
City's proportionate share of the net pension liability (asset)	\$ 8,403,739	\$ 8,296,053	\$ 5,739,046	\$ 4,954,109	\$ 3,952,000
City's covered employee payroll-hazardous	\$ 1,867,706	\$ 1,852,336	\$ 1,732,763	\$ 1,707,390	\$ 1,666,847
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	449.95%	447.87%	331.21%	290.16%	237.09%
Pan fiduciary net position as a percentage of the total pension liability	22.22%	22.33%	30.19%	34.46%	42.18%
City's proportion of the net pension liability-non-hazardous	0.16084%	0.16955%	0.17200%	0.17956%	0.17489%
City's proportionate share of the net pension liability (asset)	\$ 9,795,829	\$ 9,924,049	\$ 8,468,750	\$ 7,720,186	\$ 5,674,000
City's covered employee payroll-non-hazardous	\$ 4,257,862	\$ 3,962,265	\$ 4,106,568	\$ 4,185,306	\$ 4,008,475
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	230.06%	250.46%	206.22%	184.46%	141.55%
Pan fiduciary net position as a percentage of the total pension liability	43.47%	39.93%	48.49%	54.21%	70.65%

Notes:

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years for which information is available.

CITY OF BARDSTOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS – PENSION LIABILITY
For The Last Five Fiscal Years Ended June 30, 2019

	2019	2018	2017	2016	2015
Contractually required employer contribution	\$ 1,760,515	\$ 1,365,741	\$ 1,010,601	\$ 866,381	\$ 1,314,286
Contributions relative to contractually required employer contributions	1,760,515	1,365,741	1,010,601	866,381	1,314,286
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
City's covered employee payroll	6,125,568	5,814,602	6,343,286	5,839,331	5,892,696
Employer contributions as a percentage of covered-employee payroll	28.74%	23.49%	15.93%	14.84%	22.30%

Note:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years for which information is available.

CITY OF BARDSTOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
For The Last Two Fiscal Years Ended June 30, 2019

	2019	2018
City's proportion of the net OPEB liability-hazardous	0.332616%	0.370810%
City's proportionate share of the net OPEB liability (asset)	\$ 2,371,417	\$ 1,831,677
City's covered employee payroll-hazardous	\$ 1,867,706	\$ 1,852,336
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	126.97%	98.88%
Pan fiduciary net position as a percentage of the total OPEB liability	78.76%	101.13%
 City's proportion of the net OPEB liability-non-hazardous	 0.160836%	 0.169546%
City's proportionate share of the net OPEB liability (asset)	\$ 2,855,611	\$ 2,673,490
City's covered employee payroll-non-hazardous	\$ 4,257,862	\$ 3,965,265
City's share of the net pension OPEB (asset) as a percentage of its covered employee payroll	67.07%	67.42%
Pan fiduciary net position as a percentage of the total OPEB liability	149.11%	148.32%

Notes:

The measurement date of the net OPEB liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

CITY OF BARDSTOWN, KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS – OPEB LIABILITY
For The Last Two Fiscal Years Ended June 30, 2019

	<u>2019</u>	<u>2018</u>
Contractually required employer contribution	\$ 360,596	\$ 385,579
Contributions relative to contractually required employer contributions	<u>360,596</u>	<u>385,579</u>
Contribution deficiency (excess)	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
City's covered employee payroll	6,125,568	5,814,602
Employer contributions as a percentage of covered-employee payroll	5.89%	6.63%

Note:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City is presenting information for those years for which information is available.

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2019

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	Equipment Fund	Cemetery	Total Other Governmental Funds
Assets						
Cash and cash equivalents	\$ 283,261	\$ 67,302	\$ 24,965	\$ 1,198	\$ 34,207	\$ 410,933
Investments	0	338,578	0	125,964	112,336	576,878
Restricted Cash	0	0	0	0	9,867	9,867
Restricted Investments	0	0	0	0	175,713	175,713
Land Held For Resale	0	66,322	0	0	0	66,322
Due from other funds	0	1,477,750	0	0	0	1,477,750
Total Assets	283,261	1,949,952	24,965	127,162	332,123	2,717,463
Liabilities						
Accounts payable	0	0	9,574	0	3,502	13,076
Total Liabilities	0	0	9,574	0	3,502	13,076
Fund Balances						
Nonspendable	0	1,544,072	0	0	0	1,544,072
Restricted						
Roads	283,261	0	0	0	0	283,261
Cemetery	0	0	0	0	185,580	185,580
Assigned						
Land Acquisition and Industrial Dev.	0	405,880	0	127,162	0	533,042
Public safety	0	0	15,391	0	0	15,391
Cemetery	0	0	0	0	143,041	143,041
Total Fund Balances	283,261	1,949,952	15,391	127,162	328,621	2,704,387
Total Liabilities and Fund Balances	\$ 283,261	\$ 1,949,952	\$ 24,965	\$ 127,162	\$ 332,123	\$ 2,717,463

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
For The Fiscal Year Ended June 30, 2019

	Municipal Road Aid	Land Acquisition and Building	Law Enforcement	Equipment Fund	Cemetery	Total Nonmajor Funds
Revenues						
Intergovernmental	\$ 236,400	\$ 0	\$ 0	\$ 0	\$ 0	\$ 236,400
Charges for services	0	0	0	0	59,890	59,890
Interest	18	6,352	7	2,159	2,379	10,915
Other	0	0	19,150	0	225	19,375
Total Revenues	<u>236,418</u>	<u>6,352</u>	<u>19,157</u>	<u>2,159</u>	<u>62,494</u>	<u>326,580</u>
Expenditures						
Current:						
General government	0	542,520	0	0	0	542,520
Public safety	0	0	19,545	0	0	19,545
Cemetery	0	0	0	0	66,065	66,065
Total Expenditures	<u>0</u>	<u>542,520</u>	<u>19,545</u>	<u>0</u>	<u>66,065</u>	<u>628,130</u>
Over						
Expenditures	<u>236,418</u>	<u>(536,168)</u>	<u>(388)</u>	<u>2,159</u>	<u>(3,571)</u>	<u>(301,550)</u>
Other Financing Uses:						
Gain on sale of land	0	402,777	0		0	402,777
Transfers in	<u>0</u>	<u>22,500</u>	<u>0</u>	<u>37,500</u>	<u>0</u>	<u>60,000</u>
Total Other Financing Uses	<u>0</u>	<u>425,277</u>	<u>0</u>	<u>37,500</u>	<u>0</u>	<u>462,777</u>
Net Change in Fund Balances	236,418	(110,891)	(388)	39,659	(3,571)	161,227
Fund Balances, Beginning of Year	46,843	2,060,843	15,779	87,503	332,192	2,543,160
Fund Balances, End of Year	<u>\$ 283,261</u>	<u>\$ 1,949,952</u>	<u>\$ 15,391</u>	<u>\$ 127,162</u>	<u>\$ 328,621</u>	<u>\$2,704,387</u>

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING BALANCE SHEET –
NON-MAJOR PROPRIETARY FUNDS
June 30, 2019

	Depreciation Reserve	Operating and Maintenance Reserve	Water and Wastewater Enhancement Fund	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Assets					
Noncurrent Assets:					
Restricted Assets:					
Cash	\$ 539,966	\$ 0	\$ 205,797	\$ 10,436	\$ 756,199
Investments	0	2,712,665	1,106,839	590,834	4,410,338
Total Noncurrent Assets	539,966	2,712,665	1,312,636	601,270	5,166,537
Total Assets	539,966	2,712,665	1,312,636	601,270	5,166,537
Net Position					
Restricted for:					
Bond reserves	64,966	2,712,665	0	0	2,777,631
System capacity reserve	0	0	1,312,636	0	1,312,636
Other purposes	475,000	0	0	601,270	1,076,270
Total Net Position	539,966	2,712,665	1,312,636	601,270	5,166,537
Total Liabilities and Net Position	\$ 539,966	\$ 2,712,665	\$ 1,312,636	\$ 601,270	\$ 5,166,537

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – NON-MAJOR PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2019

	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	241,325	0	241,325
Total Operating Revenues	0	0	241,325	0	241,325
Income (Loss) from Operations	0	0	241,325	0	241,325
Nonoperating Revenues (Expenses):					
Investment earnings	2,605	41,207	20,305	7,046	71,163
Total Nonoperating Revenues (Expenses)	2,605	41,207	20,305	7,046	71,163
Income (Loss) Before Contributions and Transfers	2,605	41,207	261,630	7,046	312,488
Transfers in	0	0	0	35,000	35,000
Change in Net Position	2,605	41,207	261,630	42,046	347,488
Net Position, Beginning of Year	537,361	2,671,458	1,051,006	559,224	4,819,049
Net Position, End of Year	\$ 539,966	\$ 2,712,665	\$ 1,312,636	\$ 601,270	\$ 5,166,537

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – COMBINED UTILITIES OPERATING DEPARTMENTS
For The Fiscal Year Ended June 30, 2019

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable Net</u>	<u>Garbage</u>	<u>Total Operating</u>
Operating Revenues:						
Charges for services	\$ 16,443,471	\$ 4,566,186	\$ 4,264,441	\$ 11,134,074	\$ 1,617,263	\$ 38,025,435
Utility surcharge	0	0	0	87,630	0	87,630
Connection fees	2,926	119,134	20,743	37,552	0	180,355
Contract services	145,049	4,083	17,896	88,762	0	255,790
Penalties	100,607	67,446	33,262	106,853	14,559	322,727
Miscellaneous	31,612	15,949	15,737	1,188	61,785	126,271
	<u>16,723,665</u>	<u>4,772,798</u>	<u>4,352,079</u>	<u>11,456,059</u>	<u>1,693,607</u>	<u>38,998,208</u>
Total Operating Revenues						
Operating Expenses:						
Purchases for resale	13,253,698	0	0	5,678,398	0	18,932,096
Personal services	1,147,412	2,013,858	1,008,033	1,805,909	729,143	6,704,355
Contractual services	319,596	235,886	257,669	339,335	423,192	1,575,678
Materials and supplies	118,570	737,434	442,173	644,353	78,355	2,020,885
Maintenance and repairs	234,541	398,664	234,654	556,712	53,065	1,477,636
Other expenses	320,277	638,998	734,521	1,113,891	67,192	2,874,879
Depreciation	498,813	1,409,413	965,000	856,486	78,554	3,808,266
	<u>15,892,907</u>	<u>5,434,253</u>	<u>3,642,050</u>	<u>10,995,084</u>	<u>1,429,501</u>	<u>37,393,795</u>
Total Operating Expenses						
Income From Operations	<u>\$ 830,758</u>	<u>\$ (661,455)</u>	<u>\$ 710,029</u>	<u>\$ 460,975</u>	<u>\$ 264,106</u>	<u>\$ 1,604,413</u>

CITY OF BARDSTOWN, KENTUCKY
OTHER SUPPLEMENTARY INFORMATION -MODIFIED ACCRUAL BASIS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET POSITION – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)
For The Fiscal Year Ended June 30, 2019

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable Net</u>	<u>Garbage</u>	<u>Total Operating</u>
Nonoperating Revenues (Expenses):						
Interest and investment revenue	\$ 179,348	\$ 8,544	\$ 7,535	\$ 6,946	\$ 0	\$ 202,373
Lease revenue	0	750	0	0	0	750
Interest expense	<u>0</u>	<u>(172,293)</u>	<u>(29,778)</u>	<u>0</u>	<u>0</u>	<u>(202,071)</u>
Total Nonoperating Revenue (Expense):	<u>179,348</u>	<u>(162,999)</u>	<u>(22,243)</u>	<u>6,946</u>	<u>0</u>	<u>1,052</u>
Income Before Contributions and Transfers	1,010,106	(824,454)	687,786	467,921	264,106	1,605,465
Capital contributions	0	169,810	465,325	0	0	635,135
Transfers in	15,705	18,628	0	0	0	34,333
Transfers out	<u>(3,726)</u>	<u>(399,912)</u>	<u>(842,186)</u>	<u>(78,089)</u>	<u>0</u>	<u>(1,323,913)</u>
Change in Net Position	<u>\$ 1,022,085</u>	<u>\$ (1,035,928)</u>	<u>\$ 310,925</u>	<u>\$ 389,832</u>	<u>\$ 264,106</u>	951,020
Net Position, Beginning of Year						<u>63,950,171</u>
Net Position, End of Year						<u>\$ 64,901,191</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**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

**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, 2019, 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 March 6, 2020.

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.

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)

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006, 2019-007, 2019-008, 2019-009 and 2019-010 to be material weaknesses.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-011.

City Officials Response to Findings

The City of Bardstown's responses to the findings identified in our audit are included in the accompanying Schedule of Findings and Responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

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

March 6, 2020

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2019

2019-001 The Former Chief Financial Officer/Occupational Tax Administrator Did Not Follow The City's Internal Controls Pertaining To Cash Receipts Resulting In Missing Funds

During fiscal year-end reconciliation procedures, the City discovered that City Funds were missing. Subsequently, there was an analysis of receipts that were handled by an employee that served as Occupational Tax Administrator up to April 2015 and as Chief Financial Officer up to September 2019 (CFO/OTA) by the City's accounting staff.

The City had established procedures for internal controls and segregation of duties over cash deposits and revenue. However, the former CFO/OTA either circumvented or changed these procedures to conceal the missing funds. The City's analysis showed the following methods to conceal the missing funds:

- Cash was taken from the payments made by the customers before a deposit was prepared and deposited in the bank.
- Expense reimbursements without proper documentation and approval totaling \$899 were included on paychecks
- Payments were made by the City on behalf of the former CFO/OTA to the 401K pension plan in excess of the amount withheld from the former CFO/OTA's wages. The excess payments totaled \$700 in the fiscal year ended June 30, 2019 and \$100 in July 2019.
- An I Phone XS Max was purchased on a City credit card for \$1,449 for personal use of the former CFO/OTA.
- On several occasions, vacation pay was paid before the vacation days were accrued. No one verified or approved these transactions.
- A \$1,600 pre-payment credit was recorded on the former CFO/OTA's cable account that could not be traced to an actual payment.

Our audit procedures revealed additional weaknesses in internal control that may have contributed to the missing funds as follows:

- Deposits paid by new customers for utilities were not posted promptly as there was a delay in setting up new accounts by the meter department. These payments were held by the City until they could be posted.
- Cash and checks were kept in the same locked vault to which each Customer Service Representative had access. A master key was kept in a drawer in the office of the former CFO.
- The number and experience of accounting staff was limited.

The City's analysis revealed approximately \$764,000 in missing cash receipts, undocumented personal expenses and account credits from April of 2013 to September 18, 2019. The City's analysis of missing cash receipts in each fiscal year is as follows:

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-001 The Former Chief Financial Officer/Occupational Tax Administrator Did Not Follow The City's Internal Controls Pertaining To Cash Receipts Resulting In Missing Funds (Continued)

<u>Fiscal Year Ending:</u>	<u>Amount</u>
6/30/2013	\$ 4,295.83
6/30/2014	27,375.48
6/30/2015	97,054.04
6/30/2016	72,856.57
6/30/2017	93,692.47
6/30/2018	74,117.03
6/30/2019	344,725.43
6/30/2020	48,277.54
	<u>\$ 762,394.39</u>

As of the audit date, \$134,121 in missing funds have been recovered along with the I Phone XS Max. Also, the credit on the former CFO/OTA's cable account has been reversed.

The City's findings have been turned over to the Kentucky State Police for investigation.

Good internal controls and segregation of duties are necessary for governmental entities. When cash is received, strong internal controls and segregation of duties must be implemented to safeguard cash as it is always susceptible to theft. To accomplish this, the process of counting, depositing and recording cash should be segregated.

All reimbursements to employees should be documented and approved by another designated employee.

Any credits to employee utility accounts should be approved by another designated employee.

We recommend that the City strengthen the controls over cash by:

- Discontinue the practice of accepting cash payments as cash is always susceptible to theft
- Multiple employees should be involved in counting and depositing cash receipts
- The handling of cash should be segregated from the recording of cash.
- All receipts should be deposited daily and any new customer accounts be created promptly.
- The access to daily deposits should be limited by locking it in a separate safe.

We also recommend that all employee reimbursements for expenses should be approved and reviewed by designated personnel. In addition, all retirement transactions should be reconciled to the accounting records for each pay period and reviewed by designated personnel. Furthermore, all vacation accruals should be reconciled for each pay period and reviewed by a designated employee. We also recommend that any employee's utility accounts be reviewed periodically for irregularities. Finally, the City should consider adding another employee to the accounting staff to assist in the review process. Ideally this employee should have an accounting degree and some previous experience in accounting.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-001 The Former Chief Financial Officer/Occupational Tax Administrator Did Not Follow The City's Internal Controls Pertaining To Cash Receipts Resulting In Missing Funds (Continued)

Views of Responsible Official and Planned Corrective Action:

During FY19, staff changes in the finance department led to a lack of internal controls. The former CFO made internal procedural changes without authorization that further impaired the controls in place to monitor certain finance related activities.

The City of Bardstown takes the control and handling of cash seriously, but at the same time recognizes the convenience afforded to customers by accepting this form of payment. By implementing stringent policies and procedures to create staff awareness, we feel the risks of future theft are diminished.

Discontinuing the acceptance of cash payments of utility bills would be a significant inconvenience for many of our customers. With the proper policies and procedures in place, the risks associated with the handling of cash are greatly diminished.

- *Dual-Control protocols are now in place for the counting and verification of cash deposits. The CSR will balance their drawer and create a deposit ticket. The CSR Supervisor verifies all deposits before submission to the bank.*
- *Cash deposits will be prepared and taken to the bank on a daily basis. All check payments are currently deposited daily through use of our Remote Deposit system with the bank.*
- *Policies and procedures related to cash control and handling shall be written to clearly define cash drawer assignment/maintenance, balancing procedures, and over/short procedures.*
- *Policies shall be written to mandate that no individual with access to the General Ledger system will be allowed to handle cash or check deposits for the General Fund or Combined Utility Fund. This will create segregation of duties for the handling and recording of deposits.*

In addition to cash controls, the City acknowledges the need for documented controls of other finance related activities.

- *A new Expense Reimbursement policy shall be created to detail reimbursement procedures, approval requirements, updated reimbursement request forms, etc. This new policy will expand upon any current reimbursement policies noted in the Personnel Policy of the City.*
- *Protocols have been put in place to reconcile payroll records with retirement submissions to both the Kentucky Retirement System and Kentucky Deferred Compensation.*
- *Protocols have put in place to ensure the ability to enter un-accrued vacation time in the payroll system is not allowed. The borrowing or payout of accrued vacation must be approved and entered by the HR/Risk Manager before processing.*
- *As part of normal balancing procedures for month-end, the CFO and/or CSR Supervisor will begin audits of random City personnel for proper entries made to utility accounts.*

We acknowledge the viability of the City of Bardstown begins with the proper control and reporting of its financial activities. Proper controls and segregation of duties can be obtained at current staffing levels. As we continue to make improvements in this area, the need for additional staffing will be reviewed and acted upon if necessary.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-002 The City Has Poor Internal Controls Over Occupational Tax Receipts

During our testing, we noticed that Occupational Tax Receipts were left in an unlocked box outside the Chief Financial Officer's office. We also noted that delinquencies are not tracked and delinquent notices are not mailed. Sometimes a phone call is made when a missing payment is noted. Finally, penalties and interest are not charged for late payments. We could find no evidence that the current software had the ability to track delinquencies.

The City has poor internal controls over occupational tax receipts.

A City analysis determined that occupational tax receipts were included in the approximately \$764,000 in missing funds.

The City collects occupational tax from payroll withholdings and net profits tax from businesses that work in the City. Strong internal controls should require only the Occupational Tax Administrator to record receipts and prepare the deposit with the remote scanner. These transactions should be reviewed and initialed by a designated employee.

We recommend that the internal controls over the occupational tax receipts be improved by limiting the personnel who access the accounting records and designating an employee for review. We also recommend that delinquencies should be tracked and notices should be sent out for delinquent occupational tax and net profits tax. Penalties and interest should be charged for late payments. If the current software is not capable of this, then the City should consider using a different software in order to obtain all of the revenue the City is entitled.

Views of Responsible Official and Planned Corrective Action:

During FY19, staff changes in the finance department led to a lack of internal controls. The former CFO made internal procedural changes without authorization that further impaired the controls in place to monitor certain finance related activities.

The collection and safeguarding of the tax remittances of the citizens of Bardstown is a task deserving the same control and monitoring as all other finance related activities. Much of the alleged theft could have been prevented by monitoring and reconciling related sub-ledgers (i.e. our tax software). To increase control and monitoring of the tax administration area we shall implement the following:

- *A monthly reconciliation has been designed and implemented as of February 2020 month-end that will reconcile occupational tax receipts recorded in the tax software with revenue entries posted to the General Ledger. This will ensure that the City of Bardstown is recognizing the proper revenue as collected in Occupational Tax Receipts.*
- *Our current Occupational Tax software is dated and has limited delinquency tracking. We have been in contact with the vendor since December 2019 and are preparing for transition to an updated platform of this software that will have improved functionality that includes delinquency tracking and notification.*

The Tax Administrator has been instructed to move all mail (Tax Payments) from her easily accessible mailbox to a semi-secure cabinet in her office to await processing. In addition, the entire finance staff including the CFO, Accounts Payable Clerk, and Tax Administrator will begin locking their office doors before leaving. This will ensure access to finance related documents are monitored and controlled by the respective responsible parties.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-003 There Were Poor Internal Controls Over The Credit Card Use

The City has several credit cards available for travel expenses and online purchases. They are issued in names of several employees, but it is a common practice for one employee to use the card of another. Not all receipts are turned in to be matched to the credit card bill. Purchase orders are sometimes used by the City, but not for credit card purchase.

Lack of internal controls allowed employees to use credit cards of other employees and the lack of receipts for some purchases. Furthermore, the former Chief Financial Officer (CFO) had no oversight for her credit card charges causing charges for personal items. The lack of purchase orders for credit card purchases caused some purchases to be made without the proper approval.

During our audit testing, we noted several irregularities with the former CFO's credit card. Without oversight, online payments and personal charges were made without the City's knowledge or approval. She purchased a \$1,449 cell phone for her personal use. The phone was subsequently returned to the City. There were also five instances where the actual receipt was not attached to the bill.

Good internal controls and segregation of duties are necessary for governmental entities. It is important to safeguard the City's assets.

We recommend all credit card activity in the City's name should be reviewed and paid by an employee independent of the recording process. We also recommend that the City require a purchase order to be completed before any credit card purchases are made. This would document supervisors' approval, the item being purchased, the amount and the employee making the purchase. We believe the City should consider adding another employee to the accounting staff to assist in the review process. Ideally this employee should have an accounting degree and some previous experience in accounting.

Views of Responsible Official and Planned Corrective Action:

In today's payables environment, corporate purchasing cards are a commonly used tool for payment of training, events, travel, and other predominately online activities. At the same time, the City acknowledges the risks associated with this form of payment. To mediate this risk the City will:

- *Implement approval of statements by the following:*
 - *The statements/receipts related to the card associated with the CFO shall be reviewed/approved by the mayor before payment.*
 - *All other statements/receipts related to open cards shall be reviewed/approved by the CFO before payment.*
- *Implement a card holder sign-out form to act as a purchase order that will be utilized anytime a card is provided to an employee not listed on that card. This form will document the date/time of sign-out, vendor, description, anticipated purchase amount, printed name & signature of person receiving the card. Similar authorizations and verifications will be utilized when the card is returned.*
- *Document these actions in a newly created Expense Reimbursement Policy that outlines the appropriate use, approval, and documentation of expenditures associated with corporate purchasing cards.*

We acknowledge the viability of the City of Bardstown begins with the proper control and reporting of its financial activities. Proper controls and segregation of duties can be obtained at current staffing levels. As we continue to make improvements in this area, the need for additional staffing will be reviewed and acted upon if necessary.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-004 The City Has Poor Internal Controls Over Retirement Payments

There were many errors made in the reporting and payment of retirement invoices.

There were no reconciliations performed with the payroll reports provided by the payroll service to the payroll entered into the Kentucky Retirement System's website and the payments made to Kentucky Deferred Compensation.

The payments made to the Kentucky Retirement System were paid late three times during the fiscal year incurring late fees. The payment made for the month of April only included one pay period, not the two pay periods that actually occurred in April. In an attempt to correct this underpayment, both pay periods for April were added to the two pay periods that actually occurred in May which caused an overpayment of \$79,353.51. This overpayment should have been obvious if a reconciliation of the reports to the trial balance had been performed. The City has requested a credit toward future payments. The files for these monthly payments were incomplete and unorganized.

The payments made to the Kentucky Deferred Compensation for 401K amounts withheld from employees' paychecks were not accurate and no reconciliations were performed of the amounts withheld and paid for each pay period. The former Chief Financial Officer paid \$700 more into her Kentucky Deferred Compensation plan than was withheld from her paychecks for fiscal year 2019, and \$100 more in fiscal year 2020. There was no independent review of these payments. Complete copies of the invoices were not kept in the files to verify these amounts and had to be requested from the state to perform audit procedures.

Good internal controls and segregation of duties are necessary for governmental entities. It is important to safeguard the City's assets.

We recommend that all transactions should be reviewed by an employee independent of the employee recording transactions. We also recommend that reconciliations of payroll amounts should be performed and documentation should be kept.

Views of Responsible Official and Planned Corrective Action:

During FY19, staff changes in the finance department led to a lack of internal controls. The former CFO made internal procedural changes without authorization that further impaired the controls in place to monitor certain finance related activities.

The City of Bardstown is currently following the recommendations listed in this document. Retirement system transactions are entered by the HR/Risk Manager then reviewed and approved by the CFO. Payroll is processed in the same manner. All items are reconciled back to reports produced by the payroll system.

2019-005 The City Has Poor Internal Controls And Lack Of Segregation Of Duties Over Bank Reconciliations And Cash Reporting

During our review of the cash process, we discovered that the former Chief Financial Officer received the bank statements each month and prepared the bank reconciliations. The City Council reviewed a summary of the cash and investment balances each month. However, there is no independent review of the bank reconciliations.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-005 The City Has Poor Internal Controls And Lack Of Segregation Of Duties Over Bank Reconciliations And Cash Reporting (Continued)

There were several errors made on the cash and investment balances summary. Interest earned on a certificate of deposit in the amount of \$41,707 was posted to the Combined Utilities Fund, when it should have been posted to the OMR Fund. This left the OMR Fund with a negative cash balance. The negative cash balance was shielded by the City using one combined checking account for the operating activity for all funds.

Also, the investment summary was also not always updated with the current values of the certificates of deposits and the correct purchase and maturity dates.

In addition, many outstanding checks written as far back as 2014 on the bank reconciliations. These checks should be researched and reissued or voided to reconcile cash to a more accurate balance.

The City has poor internal controls and lack of segregation of duties over bank reconciliations and cash reporting.

Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Strong internal controls should provide for an independent employee to review the bank reconciliations and cash summary reports.

In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the City strengthen internal controls by segregating duties over bank reconciliations. The City should consider adding another employee to the accounting staff to assist in the review process. Ideally this employee should have an accounting degree and some previous experience in accounting. If segregation is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation. The cash and investment balances summary reports should be reviewed and corrected, if necessary so the Mayor and City Council receive the most accurate reports for decision making purposes. Finally, we recommend that the City consider a policy of voiding checks after ninety days with "Void after 90 Days" printed on the checks to eliminate having old outstanding checks in the future. If the checks have not been cashed within a reasonable time, then they should be voided.

Views of Responsible Official and Planned Corrective Action:

During FY19, staff changes in the finance department led to a lack of internal controls. The former CFO made internal procedural changes without authorization that further impaired the controls in place to monitor certain finance related activities.

We acknowledge the viability of the City of Bardstown begins with the proper control and reporting of its financial activities. Proper controls and segregation of duties can be obtained at current staffing levels. As we continue to make improvements in this area, the need for additional staffing will be reviewed and acted upon if necessary.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-005 The City Has Poor Internal Controls And Lack Of Segregation Of Duties Over Bank Reconciliations And Cash Reporting (Continued)

Current processes to address bank reconciliations and cash reporting are in place to include:

- *The CFO completes all bank reconciliations and initials all source documents. Most system entries included in the reconciliation are being made by someone other than the CFO.*
- *Cash & Investment balances are all verified and reconciled back to actual bank statements for proper reporting.*

We recognize the effect of a large volumes of outstanding checks on our reconciliation process. The city will begin remitting uncashed items as Unclaimed Property to the State of Kentucky when the item remains outstanding for three years and is unable to be reissued. We will research the recommendation of voiding after ninety days and implement the rule in a forthcoming Accounts Payable Policy if adopted.

2019-006 The Former Chief Financial Officer Opened Nine New Checking Accounts Without The Required Two Signatures

The former Chief Financial Officer (CFO) opened nine new checking accounts for separate funds without the required two signatures. These new accounts did have the approval of City Council. However, The City requires two signatures on all checks and these accounts did not meet that requirement. Fortunately, these accounts had almost no activity.

The former CFO had no oversight for her decision-making process due to lack of segregation of duties and poor internal controls.

Only one employee in the City had the knowledge and control of the banking activities. This contributed to the estimated \$764,000 in missing funds.

Good internal controls and segregation of duties are necessary for governmental entities. It is important to safeguard the City's assets.

We recommend all checks written on the City's accounts be reviewed and signed by an employee independent of the recording of transactions. The City should consider adding another employee to the accounting staff to assist in the review process. Ideally this employee should have an accounting degree and some previous experience in accounting.

Views of Responsible Official and Planned Corrective Action:

The new accounts opened were presented and approved by council at the 3/26/2019 meeting. The mayor and former CFO signed the signature cards, however there was no notation of "Two Signatures Required". We feel this was an oversight as, other than a small batch of "trial" checks received at opening, there has been no intent for checks to be produced from these accounts leading to "Two Signatures Required" not being applicable. Since the opening of these accounts, no checks have been written from them. All accounts have since been updated to include a notation of "Two Signatures Required" along with four representatives signing the signature cards on file.

The City recognizes the need for access and control of bank accounts to be secure, effective, and reliable. Checks for payments are currently written out of our operating account and signed by the Mayor and CFO. If the mayor is unavailable, two other council members are allowed to sign in his place. In the

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-006 The Former Chief Financial Officer Opened Nine New Checking Accounts Without The Required Two Signatures (Continued)

typical course of business, the CFO does not initiate check batches. In the limited circumstances that the CFO must process checks, there are other authorized signers available to maintain independence. We will create an official Accounts Payable Policy that will detail check processing, approval requirements, signing authority, etc.

We acknowledge the viability of the City of Bardstown begins with the proper control and reporting of its financial activities. Proper controls and segregation of duties can be obtained at current staffing levels. As we continue to make improvements in this area, the need for additional staffing will be reviewed and acted upon if necessary.

2019-007 The City Should Consider Forming An Investment Committee

The City has a large dollar amount of certificates of deposits invested in various banking institutions. During our review of investments, we discovered that there was a lack of oversight over the investment process.

The former Chief Financial Officer (CFO) had no oversight over the decision making due to the lack of segregation of duties and poor internal controls.

The former CFO was the only employee in the City having the knowledge and control of where and when the certificates of deposits were invested, renewed or cashed. The report prepared by the former CFO for the City Council was also not always updated with the current values of the certificates of deposits and the correct purchase and maturity dates.

Good internal controls and segregation of duties are necessary for governmental entities. It is important to safeguard the City's assets and make the best investment decisions possible.

We recommend that the City should form an investment committee. These important investment decisions should be reviewed and made with the knowledge of employees independent of the recording process.

Views of Responsible Official and Planned Corrective Action:

The City, as a government entity, has very limited investment options per KRS statute. Such options are certificates of deposit and treasury bills, all with approximate maturities of one year. With such simplistic options available, we feel the forming of an investment committee is not necessary.

We do feel, however, that proper reporting and open communication of investment activity with the Mayor and Council is necessary and should be expected. Processes have been implemented to:

- Properly report balances, maturities, and rates that reconcile back to provided statements.*
- Highlight in the CFO financial report correspondence with the Mayor and Council all investment activity that may have occurred during the month and/or upcoming activity that will occur in the next month.*

In addition to the processes already in place, the CFO will begin highlighting finance and investment activity during active council sessions to insure the Mayor and Council are fully aware and able to provide comments or questions in an open meeting forum.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-008 The City Has Poor Internal Controls Over The Budget Process

There were several errors noted in the budget preparation and the budget amendments. During our review of the approved budget, we noted that the budget was prepared with “Transfers In” amounts that did not agree with “Transfers Out”.

There was a lack of oversight in the budget preparation and in the review of the Budget to Actual reports during the year.

The Fire, Water and Garbage department’s budgets were balanced with amounts recorded as “Transfer In From Unrestricted Reserves”. There was no corresponding “Transfer Out” from any department on the budget. The actual “Transfers In” did not take place. The Fire and Garbage departments were able to operate within their budgets. However, the Water Department actual revenue was \$2,914,470 less than budgeted and the actual expenses were \$1,850,743 less than budgeted, with \$257,639 considered Excess Revenue Over Expenditures. This resulted in the Water Department showing a deficit for the year of \$806,088 before the additional pension liability was recorded, and \$1,035,928 in the audit report after the additional pension liability was recorded.

We also noted that the Finance Department exceeded its’ budget by \$113,207. Upon further review it was due to a budget amendment that should have been made, but was not.

The Restaurant Tax collected exceeded the budgeted amount by \$130,647. Since this was unanticipated revenue, a budget amendment should have been made to increase the Restaurant Tax revenue and the applicable expenditures.

Strong internal controls are necessary for governmental entities. It is important to review the budget for accuracy during the budget preparation and also monitor the Budget to Actual reports during the year. Budget amendments are allowed when the City receives unanticipated revenue. It is also permissible to have a budget amendment to add the prior year fund balances when they are known.

We recommend that the City review the budget closely before it is presented to the City Council for approval. Also, the budget should be prepared based upon realistic transfer amounts. Furthermore, we recommend that Budget to Actual reports should be monitored. Finally, when revenue received exceeds the budgeted amounts, a budget amendment should be prepared before the increased amount is spent.

Views of Responsible Official and Planned Corrective Action:

The City recognizes the importance of the budget as a financial document that expresses public policy, financial intent, control, and provides the basis for evaluating performance. Its accuracy and monitoring throughout the fiscal year is crucial to the continued financial health of the City.

The CFO will work diligently to ensure the Mayor has a trusted and balanced basis to execute the financial decisions of the City. The budget provided by the Mayor and CFO will be a true and accurate representation of the anticipated financial activity throughout a fiscal year.

The CFO will continue to monitor budget to actual data throughout the year to prepare accurate budget amendments for presentation to the council.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-009 The City Should Have Each Department Perform An Inventory Of Capital Assets

During our review of Capital Assets, we noted many items on the list that are very old.

The deficiency occurred due to the City's lack of adequate controls over the reporting of capital assets.

By not maintaining an accurate list of capital assets, assets could be improperly stated, increasing the risk of material misstatement to the capital asset accounts. Also, the City cannot properly determine insurance needs without proper documentation being maintained.

The Department for Local Government requires that capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long-range planning for property replacement. These capital asset records should include a description of the asset, historical cost, date of acquisition, date of disposal, and proceeds from sale or disposal of assets.

We recommend that the City maintain a complete and accurate capital asset schedule to comply with the Department for Local Government requirements. Policies should be implemented that will identify and track additions and deletions for the purpose of the capital asset schedule and required insurance coverage. In addition, the City should complete a yearly physical inventory to ensure all assets meeting the City's capitalization policy thresholds are included.

Views of Responsible Official and Planned Corrective Action:

Through the use of the City's fixed asset software we are able to list and track capital assets. We recognize the need to maintain accurate capital asset listings to ensure the integrity of our financial reporting.

In order to provide accurate future capital asset listings, the City will:

- Complete an inventory of capital assets. Department heads and supervisors will be tasked to compare current listings in our software with actual on-hand assets. Adjustments and descriptions will be made as necessary.*
- Create a new Capital Assets policy that will be implemented to detail capitalization requirements, record maintenance, disposal rules, and required notification for asset activity.*
- Set a realistic recurring physical audit schedule that meets the needs of the City to accurately track and maintain capital assets.*

2019-010 The City Has Poor Internal Controls Over Tax Abatement Documentation

The City may agree to abate real and tangible property taxes and occupational taxes in order to promote new business in the City based on prescribed criteria. The City did not monitor existing tax abatements that were in effect during the fiscal year ended June 30, 2019.

The City did not keep a master list of businesses who benefited from tax abatement agreements.

Pursuant to the auditors' request, six tax abatement agreements were produced. Three were for abatement of real and tangible taxes, and three were for abatement of occupational tax.

The total amount of real and tangible tax abated under the agreements was \$78,137. However, there was no documentation of the amounts of any occupational tax abated.

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
June 30, 2019

2019-010 The City Has Poor Internal Controls Over Tax Abatement Documentation (Continued)

GASB Statement Number 77 Tax Abatement Disclosures requires the City to disclose information about the nature and magnitude of tax abatements in the audit report.

We recommend that the City keep documentation on the businesses that have been offered tax abatement including the agreement, the criteria the business is expected to achieve, the annual reporting from the business that shows their progress and the amount of tax abatement for each year. Also, the City should require a business subject to an agreement to report compliance with the agreement annually and follow-up on those that do not comply.

Views of Responsible Official and Planned Corrective Action:

Lack of control and organization of open tax abatement agreements could lead to reduced tax revenue and/or mistakes during billing. The city has taken or will take the following measures as related to tax abatements:

- *All ordinances or municipal orders related to open abatements were compiled to a single folder in the CFO's office. We now have a clear picture of open abatements.*
- *A document will be created to summarize all open abatements detailing Business Names, abatement type and length, and affected taxes. This document will then be shared with the Tax Administrator for additional monitoring controls.*
- *The CFO and City Clerk will ensure proper council approval and documentation of all abatements.*

2019-011 Title: 2019-011: The Self-Insurance Fund Is Showing A Deficit As Of June 30, 2019

The City has a self-insured health plan that provides employees with traditional health care insurance that covers hospitalization and major medical expenses within specified limits. The plan is funded by employee withholdings and contributions from the City that are transferred from each fund that have employees.

There was a lack of monitoring over cash balances and reporting.

The Self-Insurance Fund has a deficit of \$12,404 as of June 30, 2019.

We recommend that the City make additional contributions to the Self-Insurance Fund to eliminate the deficit and maintain the required balance at all times.

Views of Responsible Official and Planned Corrective Action:

The City understands that ensuring proper cash balances for the use of required insurance claims payments is an important aspect of good financial control and monitoring. The following controls have been put in place to monitor cash accounts associated with our Self-Insurance Fund:

- *The bank account associated with our self-insurance fund is monitored at least weekly for activity and balances.*
- *Auto-alerts are set for notification if the balance drops below a certain dollar limit.*
- *Employee contributions (premiums) are swept every other month along with contributions from the City being made as necessary to ensure a balance is available for claims payment.*