

CITY OF BARDSTOWN, KENTUCKY

Audited Financial Statements

For the Year Ended June 30, 2008



Peercy and Gray, PSC

Certified Public Accountants

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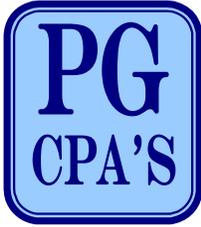
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City of Bardstown, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 4 through 15 and page 48 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Bardstown, Kentucky
November 14, 2008

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bardstown, Kentucky's basic financial statements. The combining and individual nonmajor fund financial statements and other schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and other schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of the City of Bardstown, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

November 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



OLD KENTUCKY HOME
DOORWAY

City of Bardstown

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

Management's Discussion and Analysis Annual Financial Statements For the Fiscal Year Ended June 30, 2008

CFO Mike Abell and Accountant Kerry Greenwell present this narrative to help those who review this report better understand the statements, their schedules, and the notes. It is our intent that these comments provide all parties interested in the City's financial condition, especially the citizens of Bardstown, a better understanding of the City's operations and financial condition.

The City reports its annual financial statements in a format required by the Governmental Accounting Standards Board.

Should any reader of these statements have questions or desire additional information, please contact Mike Abell at mabell@bardstowncable.net.

Financial Highlights

- As of June 30, 2008, the City's net assets (assets minus liabilities) totaled \$63,533,000, an increase of more than \$3,000,000 over the June 30, 2007 figure. \$756,000 of that increase came from contributed capital and the balance from operations.
- Net assets include capital assets, net of related debt, of \$43,571,000, \$10,499,000 in restricted resources (restricted to specific projects by law, regulation, or contractual agreement), and unrestricted resources of \$9,463,000.
- Unrestricted net assets, those resources available to continue City operations into the next fiscal year, increased by \$1,500,000 during the fiscal year, an increase of 19%.
- City liabilities on June 30, 2008 totaled \$25,048,000, of which \$18,375,000 is long term and \$6,673,000 is current, including FY 09 bond and lease payments of \$1,611,000 plus accounts payable, internal balances, deferred revenue, and other liabilities.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

Financial Highlights (Continued)

- There was no significant capital asset or long-term debt activity during the fiscal year, no commitments for capital expenditures, and no known changes in credit rating and debt limitations.

Table 1 summarizes 3 years of asset & liability change for the City, rounded to the 1000's.

Table 1: City of Bardstown, Assets, Liabilities, and Net Assets, 3 year Review

Assets	FY 06	FY 07	FY 08
Capital Assets			
Governmental Activities	\$ 8,090,000	\$ 8,414,000	\$ 8,739,000
Business-type Activities	<u>\$ 62,665,000</u>	<u>\$ 64,851,000</u>	<u>\$ 64,334,000</u>
Total Capital Assets	\$ 70,756,000	\$ 73,266,000	\$ 73,073,000
Current & Other Assets			
Governmental Activities	\$ 6,581,000	\$ 5,112,000	\$ 4,230,000
Business-type Activities	<u>\$ 7,228,000</u>	<u>\$ 9,393,000</u>	<u>\$ 11,278,000</u>
Total Current & Other Assets	\$ 13,810,000	\$ 14,505,000	\$ 15,508,000
Total Assets			
Governmental Activities	\$ 14,672,000	\$ 13,526,000	\$ 12,969,000
Business-type Activities	<u>\$ 69,894,000</u>	<u>\$ 74,244,000</u>	<u>\$ 75,612,000</u>
Total Assets	\$ 84,566,000	\$ 87,770,000	\$ 88,581,000
Liabilities			
Current & Other Liabilities			
Governmental Activities	\$ 4,558,000	\$ 3,403,000	\$ 2,491,000
Business-type Activities	<u>\$ 2,300,000</u>	<u>\$ 4,156,000</u>	<u>\$ 4,182,000</u>
Total Current & Other Lia.	\$ 6,859,000	\$ 7,558,000	\$ 6,673,000
Long-term Liabilities			
Governmental Activities	\$ 130,000	\$ 90,000	\$ 50,000
Business-type Activities	<u>\$ 21,335,000</u>	<u>\$ 19,896,000</u>	<u>\$ 18,325,000</u>
Total Long-term Liabilities	\$ 21,465,000	\$ 19,986,000	\$ 18,375,000
Total Liabilities			
Governmental Activities	\$ 4,688,000	\$ 3,493,000	\$ 2,541,000
Business-type Activities	<u>\$ 23,636,000</u>	<u>\$ 24,052,000</u>	<u>\$ 22,507,000</u>
Total Liabilities	\$ 28,324,000	\$ 27,546,000	\$ 25,048,000
Net Assets			
Governmental Activities	\$ 9,983,000	\$ 10,033,000	\$ 10,428,000
Business-type Activities	<u>\$ 46,258,000</u>	<u>\$ 50,192,000</u>	<u>\$ 53,105,000</u>
Total Net Assets	\$ 56,241,000	\$ 60,255,000	\$ 63,533,000

Management's Discussion and Analysis
 Annual Financial Statements
 For The Fiscal Year Ended June 30, 2008

Financial Highlights (Continued)

Table 1: City of Bardstown, Assets, Liabilities, and Net Assets, 3 year Review (Continued)

	FY 06	FY 07	FY 08
Invested in Capital Assets			
Governmental Activities	\$ 7,525,000	\$ 7,880,000	\$ 8,248,000
Business-type Activities	<u>\$ 29,005,000</u>	<u>\$ 33,345,000</u>	<u>\$ 35,323,000</u>
Total Capital Assets (net of debt)	\$ 36,531,000	\$ 41,226,000	\$ 43,571,000
Restricted Net Assets			
Governmental Activities	\$ 950,000	\$ 1,290,000	\$ 1,235,000
Business-type Activities	<u>\$ 10,841,000</u>	<u>\$ 9,752,000</u>	<u>\$ 9,264,000</u>
Total Restricted Net Assets	\$ 11,791,000	\$ 9,881,000	\$ 10,499,000
Unrestricted Net Assets			
Governmental Activities	\$ 1,508,000	\$ 863,000	\$ 945,000
Business-type Activities	<u>\$ 6,412,000</u>	<u>\$ 7,095,000</u>	<u>\$ 8,518,000</u>
Total Unrestricted Net Assets	\$ 7,920,000	\$ 7,958,000	\$ 9,463,000

Notes: Restricted Net Assets include those reserved for inventory, special and specific projects, and those restricted under terms of revenue bond covenants or laws and regulations. Due to rounding, totals will not exactly equal the sum of all entries.

- The City's total bonded debt decreased by \$1,580,000, as scheduled bond payments were made from the combined utilities fund.
- The unreserved fund balance for the General Fund, as of June 30, was \$945,105, a 10% increase over the prior year. This unreserved fund balance is equal to 13% of the FY 09 General Fund budgeted expenditures.
- The local economy has been affected by the national recession. While a new industrial facility, Nippon Piston Rings, and expansions by Orbis (formerly LinPac) and Johnan America took place in FY 08, and a new factory for Flowers Foods is under construction, Intertec announced the closing of its automotive industry facility. Water and sewer sales for FY 08 were about equal to FY 07, with no growth. Little growth is projected for FY 09.
- The City settled a legal challenge to its System Development Charge for new water and sewer customers in FY 04. A second challenge is still pending. While we cannot predict the outcome of this case, these funds are not pledged as security for the City's combined utility system revenue bonds and the case does not affect the City's ability to meet its bond related obligations.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

Financial Highlights (Continued)

- The City's Indirect Cost Allocation Plan was refined in minor ways in the '08 fiscal year. The original plan treated some costs as indirect that management determined were more appropriately treated as direct. For example, all costs related to the reading of utility meters and the collection of customer payments were formerly treated as indirect costs and allocated to all departments. Management determined that such costs should be charged as direct costs to the utility services. The former approach resulted in what appeared to be an excessive transfer from the Combined Utilities side of City operations to the General Government side. The Indirect Cost Allocation Plan more accurately accounts for the costs of providing utility services. The refinements more accurately allocated those costs among the various utility services.
- City property tax revenues increased in FY 08 as the Council chose to adopt the permitted 4% revenue increase rate and there were both annexation and construction related increases in the tax base.
- Parity coverage for the Combined Utilities Revenue Bonds remains well above the required coverage of 1.4 as Table 2 demonstrates.

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

	For Fiscal Year ending June 30,				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Income	\$2,281,846	\$1,935,816	\$2,469,687	\$3,934,469	\$2,913,188
Less Contributed Capital Assets	(1,528,335)	(366,445)	(1,425,932)	(1,685,714)	(500,874)
Add Back:					
Depreciation and Amortization	2,155,704	2,267,788	2,395,810	2,261,763	2,484,058
Interest Expense	1,380,677	1,195,808	1,137,025	1,082,479	1,025,912
Transfers Out	2,986,290	1,159,809	1,471,208	1,193,401	1,775,049
Total Revenues Available for Debt Service	<u>7,276,182</u>	<u>6,192,776</u>	<u>6,047,798</u>	<u>6,786,398</u>	<u>7,697,333</u>
Annual Parity Debt Service in years presented	\$2,598,470	\$2,598,470	\$2,598,470	\$2,598,470	\$2,598,470
Coverage	2.80	2.38	2.33	2.61	2.96

Overview of the Financial Statements

The City provides two major categories of services and thus reports on two major activities: 1) governmental activities, which are primarily funded by taxes and intergovernmental revenues, and 2) business-type activities, which are funded with 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 basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The Financial Statements report also includes 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.

The government-wide financial statements (Government-wide Statement of Net Assets and Government-wide Statement of Activities) are designed to provide readers with a broad overview of the City of Bardstown's finances in a manner similar to that used in the private sector. They report the financial condition on both governmental and business-type activities as of June 30. They report the City's short-term and long-term assets and liabilities, and how the City's net assets changed during the 2008 fiscal year. The revenues and expenditures of the past year are summarized and show there was growth in total net assets. The statements demonstrate that the business-type activities are growing and user charges and fees are adequate to cover expenses and contingencies, though the sewer and garbage departments are not self-supporting. This is most clearly seen on the Combining Statement of Revenues, Expenditures, and Changes in Fund Net Assets. Governmental service costs exceed governmental revenue. Transfers from the business-type activities of the City fund this deficit in the governmental activities side. Subsequent statements report separately on the two activities.

Governmental Fund Statements

The next two financial statements that report only on governmental services are:

- 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.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

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 total governmental fund balance, \$2,159,222, includes \$288,231 in land and inventory, and \$925,886 restricted to specific services or projects, including street maintenance, cemetery operations and maintenance, and special law enforcement projects. The balance, \$945,105, is unrestricted and equals nearly 13% of FY 2009's General Fund Expenditures.
- The Statement of Revenues and Expenditures shows that the General Fund expenditures exceeded revenues by nearly \$2 million. Transfers from the business (utility) activities addressed most of this deficit. Much of that transfer represents the business activities' share of centralized City expenses, including administrative, insurance, and other indirect costs.
- The Fund Balance in the General Fund typically fluctuates from year to year, primarily due to intergovernmental revenues (grants) and related expenditures.

The Budgetary and Comparison Schedule-Major Funds reports on the City's compliance with budget adoption and execution requirements. The City operated within its adopted budget.

Management concludes its comments on the major governmental fund statements by asserting that actions taken in the past three years to cut costs, properly allocate costs, and implement the Occupational License Fee have partially addressed the General Fund's structural deficit. More must be done in the future to make the General Fund support all governmental activities. Revenues of the Combined Utilities Fund are needed to replace and expand the infrastructure of the utilities.

Proprietary Fund Statements

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

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

The Statements demonstrate that the utility operations continue to grow and to be financially sound. Net assets grew by 6% this year. Restricted net assets (funds set aside in accordance with bonded debt requirements, plus construction funds reserved for the Town Creek Sewer Interceptor line) totaled \$9,264,000. The required reserve funds (Depreciation, Debt Service,

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

Operations and Maintenance, and Bond Sinking Fund) are fully funded. Unrestricted net assets totaled \$8,518,000 and are available to fund future operations.

The Proprietary Fund operations are producing sufficient revenue to fund payments for past capital improvements, maintenance and operating expenses, minor on-going expansions to the infrastructure, and a portion of the governmental services. Management's goal is to reduce the yearly transfer from the proprietary or utility fund operations to the Governmental Services or General Fund since growth demands that more of the utility operations' excess revenue be devoted to infrastructure expansion and improvement.

The Governmental Activities-Internal Service Fund, included as the last column in the Proprietary Fund statements represents the City's Employee Health Insurance Fund, a self-insured plan.

The Internal Service Fund reports on the City's attempt to control the ever-increasing cost of employee health insurance. The City, like most employers, has experienced serious cost increases in the provision of health insurance coverage for its employees. To combat these increases, the City became a self-insured entity several years ago and continuously modifies its plan to contain the ever-increasing cost of employee health care. Fiscal Year 04's expenditure of \$1,415,000 was 8% less than budgeted, but was still \$216,000 or 18% more than in the previous year. Major changes were made to the plan starting in FY 04. These led to a reduction in FY 05 expenditures of over \$500,000, a 38% reduction. Total expenditures were \$1,043,000 in FY 06, \$1,074,000 in FY 07, and \$973,817 in FY 08. Management believes the plan changes are leading to permanent cost containment, as evidenced by the below industry average yearly increase in expenditures. Management projects that future increases will not exceed the industry-wide growth rate.

Program Revenues

Revenue from service charges, or Program Revenue, funds all of the City's business-type activities, the utility services or departments and the self-insured employee health insurance program. Similar charges, or Program Revenue, fund only a small portion of the expenses of the governmental activities or departments. The balance of the governmental activity expense is funded by General Revenue (taxes, grants, and the like) and by transfers from the business-type activities.

Governmental Activities

The following tables present a 3-year history of Program Revenues, Program Expenses, and General Revenues of the Governmental Activities.

Table 3 shows expenses, program and grant revenues, and finally net expenses for each governmental program over the three most current fiscal years. These net expenses should be funded from tax revenues and investment income. The table also shows the tax, investment, and miscellaneous revenue generated to partially fund the net expenses of the governmental activities. However, the City is still relying on transfers from the utility operations to cover the costs of governmental services. These transfers are reported as "Transfers to Gen" in Table 3.

City Officials have been concerned for several years about the growing gap between governmental activity expenses and revenue and about the City's dependence on Business-type activity revenues to fund governmental services. The City implemented an Occupational and Business License and Net Profits ordinance effective August 1, 2003, to lessen that gap. That tax is helping to reduce this dependence but additional steps are needed.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

Table 3

	FY 06			FY 07			FY 08		
	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.	Expenses	Total P. Rev.	Net Exp.
General Government	\$ 1,010,955	\$ 61,170	\$ 949,785	\$ 982,669	\$ 200,932	\$ 781,737	\$ 1,286,903	\$ 359,530	\$ 927,373
Finance	664,523	47,770	616,753	675,048	33,095	641,953	655,136	28,777	626,359
Public Safety	2,114,625	256,195	1,858,430	2,240,638	330,531	1,910,107	2,483,682	737,330	1,746,352
Fire	752,948	134,733	618,215	820,276	165,626	654,650	864,330	166,597	697,733
Recreation	452,772	174,379	278,393	467,543	88,250	379,338	492,360	189,349	303,011
Risk Management	65,735	-	65,735	71,725	4,228	67,497	73,031	-	73,031
Prevention Center	241,844	312,346	(70,502)	191,053	198,598	(7,545)	173,447	162,127	11,320
Streets	612,521	384,503	228,018	671,549	450,520	221,029	665,826	480,554	185,272
Cemetery	27,417	33,608	(6,191)	30,431	42,330	(11,899)	23,898	44,335	(20,437)
	\$ 5,943,340	\$ 1,404,704	\$ 4,538,636	\$ 6,150,932	\$1,514,065	\$ 4,636,867	\$ 6,718,613	\$ 2,168,599	\$ 4,550,014

Governmental Activities, General Revenues

Property Taxes	\$ 1,582,757	\$1,769,069	\$ 1,878,801
Restaurant Tax	253,436	384,268	347,766
Business License Fees	670,287	697,235	743,121
Interest & Invest. Earnings	110,456	175,158	90,194
Misc.	<u>291,110</u>	92,630	109,746
Land Sale		<u>375,000</u>	
Total Gen. Revenues	2,908,046	3,493,360	3,169,628
Transfers To Gen	<u>1,471,298</u>	<u>1,193,401</u>	<u>1,775,049</u>
Change in Net Assets	(159,292)	49,894	394,663
Annexation Related Capital Asset Contributions	703,650		
Net Assets, Beginning of Year	<u>9,439,053</u>	<u>9,983,411</u>	<u>10,033,305</u>
Net Assets, End of Year	<u>\$ 9,983,411</u>	<u>\$ 10,033,305</u>	<u>\$ 10,427,968</u>

Business-type Activities

Table 4 presents a 3-year history of program revenues and expenses for the Business-type Activities, the utility programs or departments. Water and Sewer revenue was slightly less in FY 08 than in FY 07. The other utilities showed some growth. Total program revenue has grown from \$22,378,052 to \$25,231,575 over the past three years. Expenses have increased from \$20,421,727 to \$21,799,580. Income from operations totaled \$ 4,457,908 in FY 08.

Management's Discussion and Analysis
Annual Financial Statements
For The Fiscal Year Ended June 30, 2008

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

Activity	FY 06			FY 07			FY 08		
	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue	Charges for Service	Expenses	Net Revenue
Electric	10,518,443	8,708,400	1,810,043	11,084,757	9,257,006	1,827,751	12,370,126	9,573,329	2,796,797
Water	4,218,221	3,564,412	653,809	3,788,451	3,355,417	433,034	3,724,215	3,555,700	168,515
Sewer	2,265,469	2,228,074	37,395	2,589,441	1,844,548	744,893	2,524,526	1,998,178	526,348
Cable TV	3,461,031	3,272,002	189,029	3,723,065	3,518,419	204,646	3,928,919	3,952,710	(23,791)
Internet	783,705	333,529	450,176	1,027,817	392,457	635,360	1,438,998	498,143	940,855
Garbage	1,131,183	1,178,285	(47,102)	1,168,502	1,235,996	(67,494)	1,244,791	1,195,608	49,183
Interest Exp		1,137,025	(1,137,025)		1,082,749	(1,082,749)		1,025,912	(1,025,912)
Totals	22,378,052	20,421,727	1,956,325	23,382,033	20,686,592	2,695,441	25,231,575	21,799,580	3,431,995

General Revenues, Business-type Activities

Interest & Invest. Earnings		476,728		739,715		748,367
Grants & Contributions		1,500,932		1,685,714		500,874
Other		7,000		7,000		7,000
Less Net Transfers		<u>(1,471,298)</u>		<u>(1,193,401)</u>		<u>(1,775,049)</u>
Change in Net Assets		2,469,687		3,934,469		2,913,187
Net Assets, Beginning	(Restated for FY 06)	<u>43,788,022</u>		<u>46,257,709</u>		<u>50,192,178</u>
Net Assets, Ending		<u>\$46,257,709</u>		<u>\$50,192,178</u>		<u>\$53,105,365</u>

Summary and Pending Actions

The City's finances are sound, but there is a continuing need to lessen the dependence on business activity revenues to supplement governmental revenues to provide governmental services. The City also recognizes the need to structure its rates for utility services so that new customers pay for the increased infrastructure needed to serve them. The City initiated a rate study in late FY 05 that was partially implemented late in FY 06. That study will be completed in FY 09. The goal of the study is to fairly allocate costs to the various types of customers the City has: in-city, out-of-city, residential, commercial, industrial, and wholesale.

The most significant actions taken during FY 08 that will affect the City in the future include:

1. Construction by the City of Bloomfield of those improvements necessary to implement Bardstown's agreement to treat Bloomfield's waste water, an agreement that will result in increased utilization of Bardstown's excess treatment capacity and additional sewer department revenue for debt service.
2. Opening of the Nippon Piston Ring industrial facility which will provide both employment opportunities to the citizens and will become a significant customer of the City's utilities.
3. Fulfillment of a commitment to complete the modernization of the cable system by March 2008. The City authorized staff to dip into unrestricted reserves by as much as \$500,000 in both FY 06 and FY 07 to accomplish this task. The task was completed in March of '08, and increased revenue from the modernization project has funded much more of the project than expected.
4. Partial implementation of the water and sewer rate studies in order to more accurately identify costs related to each type of customer and tailor rates so that each customer is paying his fair share of the cost of providing the particular service. Initial recommendations of that study were implemented in FY 06 and in the beginning of FY 07.
5. Award of a contract to construct the long pending Town Creek Sewer Interceptor line, a \$3,000,000 project.
6. A vote to purchase the Bloomfield cable system from Insight, a purchase that will take place in December of 2008.

BASIC FINANCIAL STATEMENTS

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current Assets:			
Cash and cash equivalents	\$ 436,575	\$ 1,952,248	\$ 2,388,823
Investments	1,230,865	5,000,000	6,230,865
Accrued interest	175,173	277,458	452,631
Receivables, net	184,838	2,408,628	2,593,466
Internal balances	1,829,044	365,363	2,194,407
Inventory	24,130	1,021,059	1,045,189
Prepaid items	349,929	252,906	602,835
Total Current Assets	4,230,554	11,277,662	15,508,216
Noncurrent Assets:			
Restricted cash and investments	136,949	9,114,489	9,251,438
Land held for resale	264,101	0	264,101
Capital assets, net (Note 5)	8,337,748	55,219,830	63,557,578
Total Noncurrent Assets	8,738,798	64,334,319	73,073,117
Total Assets	12,969,352	75,611,981	88,581,333
Liabilities			
Current Liabilities:			
Accounts payable	1,830,256	74,158	1,904,414
Internal balances	311,932	1,882,475	2,194,407
Accrued taxes	9,946	14,653	24,599
Other liabilities	299,250	488,986	788,236
Deferred revenue	0	149,972	149,972
Lease payable	40,000	0	40,000
Bonds payable	0	1,571,295	1,571,295
Total Current Liabilities	2,491,384	4,181,539	6,672,923
Noncurrent liabilities (Note 6):			
Lease payable	50,000	0	50,000
Bonds payable	0	18,325,077	18,325,077
Total Noncurrent Liabilities	50,000	18,325,077	18,375,077
Total Liabilities	\$ 2,541,384	\$ 22,506,616	\$ 25,048,000

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 8,247,748	\$ 35,323,458	\$ 43,571,206
Restricted for:			
Infrastructure	0	1,773,083	1,773,083
Inventory and land held for resale	288,231	0	288,231
Revenue bond reserves	0	6,395,933	6,395,933
Construction fund	0	574,046	574,046
Special projects	946,884	521,171	1,468,055
Unrestricted	945,105	8,517,674	9,462,779
Total Net Assets	<u>\$ 10,427,968</u>	<u>\$ 53,105,365</u>	<u>\$ 63,533,333</u>

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
June 30, 2008

Programs Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Governmental Activities							
General government	\$ (1,286,903)	\$ 175	\$ 316,355	\$ 43,000	\$ (927,373)	\$ 0	\$ (927,373)
Finance	(655,136)	28,777	0	0	(626,359)	0	(626,359)
Public safety	(2,483,682)	244,116	271,934	221,280	(1,746,352)	0	(1,746,352)
Fire	(864,330)	120,723	45,874	0	(697,733)	0	(697,733)
Recreation	(492,360)	89,349	100,000	0	(303,011)	0	(303,011)
Risk management	(73,031)	0	0	0	(73,031)	0	(73,031)
Community Center	(173,447)	0	162,127	0	(11,320)	0	(11,320)
Streets	(665,826)	0	224,854	255,700	(185,272)	0	(185,272)
Cemetery	(23,898)	44,335	0	0	20,437	0	20,437
Total Governmental Activities	(6,718,613)	527,475	1,121,144	519,980	(4,550,014)	0	(4,550,014)
Business-Type Activities:							
Electric	(9,573,329)	12,370,126	0	0	0	2,796,797	2,796,797
Water	(3,555,700)	3,724,215	0	113,324	0	281,839	281,839
Sewer system	(1,998,178)	2,524,526	0	387,550	0	913,898	913,898
Cable TV	(3,952,710)	3,928,919	0	0	0	(23,791)	(23,791)
Garbage	(1,195,608)	1,244,791	0	0	0	49,183	49,183
Internet	(498,143)	1,438,998	0	0	0	940,855	940,855
Interest expense	(1,025,912)	0	0	0	0	(1,025,912)	(1,025,912)
Total Business-Type Activities	(21,799,580)	25,231,575	0	500,874	0	3,932,869	3,932,869
Total Government	\$ (28,518,193)	\$ 25,759,050	\$ 1,121,144	\$ 1,020,854	\$ (4,550,014)	\$ 3,932,869	\$ (617,145)

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

CITY OF BARDSTOWN, KENTUCKY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (CONTINUED)
June 30, 2008

	Net (Expenses) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	\$ 1,878,801	\$ 0	\$ 1,878,801
Business and occupational licenses	743,121	0	743,121
Restaurant tax	347,766	0	347,766
Interest and investment earnings	90,194	748,367	838,561
Other	109,746	7,000	116,746
Transfers	1,775,049	(1,775,049)	0
	<u>4,944,677</u>	<u>(1,019,682)</u>	<u>3,924,995</u>
Change in Net Assets	394,663	2,913,187	3,307,850
Net Assets - Beginning	<u>10,033,305</u>	<u>50,192,178</u>	<u>60,225,483</u>
Net Assets - Ending	<u>\$ 10,427,968</u>	<u>\$ 53,105,365</u>	<u>\$ 63,533,333</u>

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2008

	General	Non-Major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 103,417	\$ 253,867	\$ 357,284
Investments	497,240	733,625	1,230,865
Restricted cash	33,908	0	33,908
Restricted investments	0	103,041	103,041
Accrued interest receivable	24,431	150,742	175,173
Accounts receivable	141,856	0	141,856
Inventory	24,130	0	24,130
Land held for resale	264,101	0	264,101
Internal balances	1,829,044	0	1,829,044
Prepaid items	341,242	8,687	349,929
Total Assets	3,259,369	1,249,962	4,509,331
Liabilities			
Accounts payable	1,716,837	12,144	1,728,981
Accrued payroll	299,250	0	299,250
Payroll taxes payable	9,946	0	9,946
Internal balances	0	311,932	311,932
Total Liabilities	2,026,033	324,076	2,350,109
Fund Balances			
Reserved for:			
Inventory and land held for resale	288,231	0	288,231
Special projects	0	925,886	925,886
Unreserved, reported in:			
General fund	945,105	0	945,105
Total Fund Balances	1,233,336	925,886	2,159,222
Total Liabilities and Fund Balances	\$ 3,259,369	\$ 1,249,962	\$ 4,509,331

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

CITY OF BARDSTOWN, KENTUCKY
BALANCE SHEET – GOVERNMENTAL FUNDS (CONTINUED)
 June 30, 2008

	<u>Total Governmental Funds</u>
<p>Amounts reported for governmental activities in the statement of net assets are different because :</p>	
Total Fund Balances - Total Governmental Funds	\$ 2,159,222
Allocation of internal service fund balances	20,998
Capital assets (net of depreciation) used in governmental activities are not financial resources and therefore are not reported in the funds	8,337,748
Long-term debt, including bonds and capital leases, are not due and payable in the current period and therefore are not reported in the funds	<u>(90,000)</u>
Net Assets of Governmental Activities	<u>\$ 10,427,968</u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 2,877,383	\$ 0	\$ 2,877,383
Business licenses	23,890	0	23,890
Fines and forfeitures	68,415	0	68,415
Intergovernmental	791,676	593,748	1,385,424
Charges for services	268,348	259,127	527,475
Interest	45,865	44,329	90,194
Other	77,657	32,089	109,746
Total Revenues	<u>4,153,234</u>	<u>929,293</u>	<u>5,082,527</u>
Expenditures			
Current:			
General government	1,198,480	10,034	1,208,514
Finance	649,686	0	649,686
Public safety	1,957,790	434,883	2,392,673
Fire	792,033	0	792,033
Recreation	434,356	0	434,356
Risk management	72,566	0	72,566
Community Center	175,188	0	175,188
Streets	318,899	0	318,899
Cemetery	0	21,657	21,657
Capital outlay	474,684	307,717	782,401
Debt service	44,668	0	44,668
Total Expenditures	<u>6,118,350</u>	<u>774,291</u>	<u>6,892,641</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,965,116)</u>	<u>155,002</u>	<u>(1,810,114)</u>
Other Financing Sources (Uses):			
Transfers in	2,207,981	0	2,207,981
Transfers out	(159,184)	(273,748)	(432,932)
Total Other Financing Sources (Uses)	<u>2,048,797</u>	<u>(273,748)</u>	<u>1,775,049</u>
Net Change in Fund Balance	83,681	(118,746)	(35,065)
Fund Balances, Beginning of Year	<u>1,149,655</u>	<u>1,044,632</u>	<u>2,194,287</u>
Fund Balances, End of Year	<u>\$ 1,233,336</u>	<u>\$ 925,886</u>	<u>\$ 2,159,222</u>

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES-GOVERNMENTAL FUNDS (CONTINUED)
Fiscal Year Ended June 30, 2008

	Total Governmental Funds
Net Change in Fund Balances-Total Governmental Funds	\$ (35,065)
Amounts reported for governmental activities in the statement of activities are different because :	
Depreciation expense reported in statement of activities	(710,835)
Capital outlay reported in governmental expenditures	782,401
Contributed Capital	255,700
Principal payments on long-term debt reported as governmental expenditures	40,000
Change in net assets - self insurance fund	62,462
Change in Net Assets of Governmental Activities	\$ 394,663

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
June 30, 2008

	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	\$ 1,952,248	\$ 0	\$ 0	\$ 1,952,248	\$ 79,291
Investments	5,000,000	0	0	5,000,000	0
Accrued interest	74,283	61,343	141,832	277,458	0
Receivables (net of allowance for doubtful accounts, \$101,345)	2,408,628	0	0	2,408,628	42,982
Prepaid expenses	252,906	0	0	252,906	0
Due from other governments	0	0	0	0	0
Internal balances	365,363	0	0	365,363	0
Inventory-parts and supplies	1,021,059	0	0	1,021,059	0
Total Current Assets	11,074,487	61,343	141,832	11,277,662	122,273
Noncurrent Assets:					
Restricted Assets:					
Cash	0	10,700	688,239	698,939	0
Investments	0	3,498,360	4,917,190	8,415,550	0
Total Restricted Assets	0	3,509,060	5,605,429	9,114,489	0
Capital Assets:					
Land	995,712	0	0	995,712	0
Distribution systems	61,169,486	0	0	61,169,486	0
Plant and buildings	18,467,928	0	0	18,467,928	0
Equipment	4,162,786	0	0	4,162,786	0
Less accumulated depreciation	(29,576,082)	0	0	(29,576,082)	0
Capital Assets, Net of Accumulated Depreciation	55,219,830	0	0	55,219,830	0
Total Noncurrent Assets	55,219,830	3,509,060	5,605,429	64,334,319	0
Total Assets	\$ 66,294,317	\$ 3,570,403	\$ 5,747,261	\$ 75,611,981	\$ 122,273

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS (CONTINUED)
June 30, 2008

	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	\$ 74,158	\$ 0	\$ 0	\$ 74,158	\$ 101,275
Accrued taxes	14,653	0	0	14,653	0
Internal balances	1,829,044	0	53,431	1,882,475	0
Customer deposits	297,447	0	0	297,447	0
Accrued payroll	191,539	0	0	191,539	0
Deferred revenue	149,972	0	0	149,972	0
Bonds, notes, and loans payable	0	1,571,295	0	1,571,295	0
Total Current Liabilities	2,556,813	1,571,295	53,431	4,181,539	101,275
Noncurrent Liabilities:					
Bonds, notes, and loans payable	0	18,670,000	0	18,670,000	0
Unamortized issuance costs	0	(290,577)	0	(290,577)	0
Unamortized deferred refunding costs	0	(54,346)	0	(54,346)	0
Total Noncurrent Liabilities	0	18,325,077	0	18,325,077	0
	2,556,813	19,896,372	53,431	22,506,616	101,275
Net Assets					
Invested in capital assets, net of related debt	55,219,830	(19,896,372)	0	35,323,458	0
Restricted for:					
Bond reserves	0	3,570,403	2,825,530	6,395,933	0
Systemcapacity reserve	0	0	1,773,083	1,773,083	0
Construction Fund	0	0	574,046	574,046	0
Other purposes	0	0	521,171	521,171	20,998
Unrestricted	8,517,674	0	0	8,517,674	0
Total Net Assets	63,737,504	(16,325,969)	5,693,830	53,105,365	20,998
Total Liabilities and Net Assets	\$ 66,294,317	\$ 3,570,403	\$ 5,747,261	\$ 75,611,981	\$ 122,273

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUNDS
Year Ended June 30, 2008

	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	\$ 23,944,609	\$ 0	\$ 0	\$ 23,944,609	\$ 1,034,144
Utility surcharge	2,445	0	0	2,445	0
Connection fees	217,449	0	0	217,449	0
Intergovernmental	0	0	0	0	0
System development charges	0	0	146,939	146,939	0
Contract services	297,653	0	0	297,653	0
Penalties	206,210	0	0	206,210	0
Miscellaneous	416,271	0	0	416,271	0
Total Operating Revenues	25,084,637	0	146,939	25,231,576	1,034,144
Operating Expenses:					
Purchases for resale	10,414,818	0	0	10,414,818	0
Personal services	4,062,445	0	0	4,062,445	0
Contractual services	702,217	0	45,808	748,025	0
Materials and supplies	1,208,877	0	0	1,208,877	0
Maintenance and repairs	475,499	0	0	475,499	0
Other expenses	1,379,946	0	0	1,379,946	973,817
Depreciation	2,484,058	0	0	2,484,058	0
Total Operating Expenses	20,727,860	0	45,808	20,773,668	973,817
Income (Loss) from Operations	4,356,777	0	101,131	4,457,908	60,327
Nonoperating Revenues (Expenses):					
Investment earnings	303,076	172,505	272,786	748,367	2,135
Lease revenue	7,000	0	0	7,000	0
Interest expense	0	(1,025,912)	0	(1,025,912)	0
Total Nonoperating Revenues (Expenses)	310,076	(853,407)	272,786	(270,545)	2,135
Income (Loss) Before Contributions and Transfers	4,666,853	(853,407)	373,917	4,187,363	62,462
Capital contributions	500,874	0	0	500,874	0
Transfers in	1,248,295	2,304,860	35,000	3,588,155	0
Transfers out	(4,524,909)		(838,295)	(5,363,204)	0
Change in Net Assets	1,891,113	1,451,453	(429,378)	2,913,188	62,462
Net Assets, Beginning of Year	61,846,391	(17,777,422)	6,123,208	50,192,177	(41,464)
Net Assets, End of Year	\$ 63,737,504	\$ (16,325,969)	\$ 5,693,830	\$ 53,105,365	\$ 20,998

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 24,961,103	\$ 997,064
Cash payments to suppliers for good and services	(14,372,498)	(1,000,789)
Cash payments to employees for services	(4,032,881)	0
Other operating cash receipts	568,719	0
Net Cash Provided (Used) by Operating Activities	7,124,443	(3,725)
Cash Flows From NonCapital Financing Activities		
Transfers to other funds	(1,775,049)	0
Net Cash Used by Noncapital Financing Activities	(1,775,049)	0
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(2,952,065)	0
Principal paid on capital debt	(1,510,095)	0
Interest paid on capital debt	(1,025,912)	0
Contributed capital	500,874	0
Other receipts	7,000	0
Net Cash Used by Capital and Related Financing Activities	(4,980,198)	0
Cash Flows From Investing Activities		
Proceeds from disposition and acquisition of investments	(2,260,666)	0
Interest and dividends	748,367	2,135
Net Cash Provided by Investing Activities	(1,512,299)	2,135
Net Increase (Decrease) in Cash and Cash Equivalents	(1,143,103)	(1,590)
Cash and Cash Equivalents, Beginning of Year	3,794,290	80,881
Cash and Cash Equivalents, End of Year	\$ 2,651,187	\$ 79,291

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

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2008

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Fund
Reconciliation of Income (Loss) from Operations to Net Cash Provided (Used) by Operating Activities		
Income (loss) from operations	\$ 4,457,908	\$ 60,327
Adjustments to reconcile operating income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	2,484,057	0
Change in assets and liabilities:		
(Increase) Decrease in receivables, net	133,677	(37,080)
Decrease in inventory	84,174	0
Increase (Decrease) in accounts and other payables	(229,906)	(26,972)
Increase in customer deposits	152,448	0
Increase in deferred revenues	12,121	0
Increase in accrued payroll	29,964	0
Net Cash Provided (Used) by Operating Activities	\$ 7,124,443	\$ (3,725)

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 and its component units. Interfund activity, which duplicates revenues or expenses, has been eliminated from these statements, except for those transactions and balances between governmental and business-type activities. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, on the other hand, rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

The statement of activities outlines the direct expenses of each of the City's major functions and the program revenues generated by those programs. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund statements include separate statements for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the transfers between the Utilities Fund and the General Fund. Interfund balances at June 30 represent amounts due for obligations paid from the City's consolidated accounts payable account. These balances are generally repaid within the subsequent month.

Transfers during fiscal year 2008 include both operating transfers and increases to restricted funds. A total of \$1,265,049 was allocated to the General Fund from the Combined Utility Operating Fund to cover administrative costs, using an indirect cost allocation. During fiscal year 2008, the Combined Utility Operating Fund also transferred \$2,189,860 for the annual debt service payments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's utilities are charges to the customers for services. Principal operating revenues of the internal service fund are premiums charged to individual departments for insurance coverage. The City's utilities also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition 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

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (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, 2008.

Cash Equivalents

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

Inventories and Prepaid Items

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

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

Restricted Assets

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

The Operations and Maintenance Reserve reflects resources that have been set aside to subsidize potential deficiencies from the utility operations that could adversely affect debt service payments. Bond indentures require that this reserve include two months of budgeted operations.

The Construction account represents proceeds of revenue bond issues that are restricted for use in construction projects.

The City is required to set aside the lower of the average annual debt service, maximum annual debt service, or 125% of the outstanding bonds in the Debt Service Reserve. These funds are held in reserve until all outstanding bonds are retired.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Restricted Assets (Continued)

The Bond Sinking Fund includes monthly transfers to fund the annual principal and interest installments.

Revenue Bond indentures also require the City to set aside \$500,000 in the Depreciation Reserve to provide funding for future improvements to the utility system or emergency repairs necessary to maintain current service levels.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's network of streets was inventoried and valued during the fiscal year ending June 30, 2002. Estimated historical costs were based on current replacement costs discounted to the date of the last major renovation or construction of the street. Prior period adjustments include the retroactive reporting of street construction in prior years.

The City of Bardstown was established in 1780, with the first justices for the local government appointed in 1785. The justices appointed surveyors to manage the roads and ensure that the roads were "cleared, ditched, and in good repair". A portion of the streets in Bardstown has been in existence for over 220 years. However, historical cost estimates were only discounted back to 1980, in accordance with provisions of GASB Statement 34.

The City has established a capitalization policy to recognize capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Department staff completed a comprehensive review of capital assets during the fiscal year ended June 30, 2002. The results of this inventory were compiled in a capital asset management database to bring perpetual inventory records current with the physical inventory

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements, other than buildings	10-15
Infrastructure	25-50
Vehicles	3-6
Equipment	5-15

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Unused sick leave is not paid upon termination of employment. Employees who retire from the City service who have more than 240 hours accumulated sick leave and who have not used more than 480 hours sick leave during the ten year period immediately preceding the date of retirement shall be paid an amount equal to one-half the amount of accrued leave time at the time of retirement. Management has determined that these restrictions will result in actual payments that are immaterial to total assets in the fund financial statements.

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.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable unamortized issuance costs and the unamortized deferred amounts from refunding issues.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Reservations as of June 30, 2008 include the following balances:

Materials and supplies inventories	24,130
Land development for resale	264,101
Street improvements	80,710
Cemetery maintenance	248,651
Capital projects	448,189
Public safety projects	148,336

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes reconciliation between fund balances in the governmental funds and net assets reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. The self-insurance fund balances are reported within the governmental activities for the government-wide statements. In addition, capital assets, and long-term debt are added to the governmental funds to compile the long-term view of the governmental activities column.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

Reconciliation of Government-Wide and Fund Financial Statements (Continued)

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the governmental funds. These adjustments reflect the transition from the modified accrual accounting for governmental funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. The change in net assets for the self-insurance fund is added to the governmental activities, and principal payments on long-term debt are eliminated from the operating costs.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. Proprietary fund budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The Mayor submits the proposed budget to the Council no later than June 1. Council revises and adopts the budget no later than June 30. The budget ordinance establishes authorized appropriations at the department level of control. Amendments are adopted during the year as necessary to comply with KRS 91A.030.

Note 3 – Deposits and Investments- Collateral Insufficient:

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, 2008, \$79,383 of the City's bank balance was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$79,383

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

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 2008 fiscal year was \$.1910 per \$100 of assessed valuation for real estate and \$.2168 for personal property.

Note 5 – Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Primary Government			Balance 6/30/08
	Balance 7/1/07	Additions/ Completions	Retirements/ Adjustments	
Governmental activities:				
Capital assets not depreciated				
Land	\$ 521,278	0	0	\$ 521,278
Capital assets depreciated				
Buildings and improvements	3,398,207	92,715	0	3,490,922
Improvements other than buildings	2,210,460		0	2,210,460
Vehicles	1,938,697	68,517	(193,521)	1,813,693
Equipment	1,834,640	580,216	0	2,414,856
Infrastructure	12,539,127	296,653	0	12,835,780
Total assets depreciated at historical cost	21,921,131	1,038,101	(193,521)	22,765,711
Buildings and improvements	(1,220,702)	(111,471)	0	(1,332,173)
Improvements other than buildings	(2,035,743)	(25,224)	0	(2,060,967)
Vehicles	(1,575,171)	(112,751)	193,521	(1,494,401)
Equipment	(1,376,107)	(127,648)	0	(1,503,755)
Infrastructure	(8,224,204)	(333,741)	0	(8,557,945)
Total accumulated depreciation	(14,431,927)	(710,835)	193,521	(14,949,241)
Depreciable capital assets, net	7,489,204	327,266	0	7,816,470
Governmental activities capital assets, net	\$ 8,010,482	\$ 327,266	0	\$ 8,337,748

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5 – Capital Assets (Continued)

	Primary Government			Balance 6/30/08
	Balance 7/1/07	Additions/ Completions	Retirements/ Adjustments	
Business-type activities:				
Capital assets not depreciated				
Land	\$ 945,215	50,497		\$ 995,712
Capital assets depreciated				
Plant facilities	16,563,361		0	16,563,361
Other improvements	1,894,052	10,515	0	1,904,567
Vehicles	1,228,847	60,978	(77,833)	1,211,992
Equipment	2,452,202	498,592	0	2,950,794
Infrastructure	58,838,003	2,331,483	0	61,169,486
Total assets depreciable at historical cost	80,976,465	2,901,568	(77,833)	83,800,200
Plant facilities	(8,263,710)	(442,141)	0	(8,705,851)
Other improvements	(684,270)	(84,383)	0	(768,653)
Vehicles	(1,068,654)	(49,258)	77,833	(1,040,079)
Equipment	(1,264,992)	(220,995)	0	(1,485,987)
Infrastructure	(15,888,232)	(1,687,280)	0	(17,575,512)
Total accumulated depreciation:	(27,169,858)	(2,484,057)	77,833	(29,576,082)
Depreciable capital assets, net	53,806,607	417,511	0	54,224,118
Business-type activities capital assets, net	\$ 54,751,822	\$ 468,008	\$ 0	\$ 55,219,830

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

Streets	\$ 355,671
Protection to persons and property	187,371
General government	97,582
Recreation	65,499
Cemetery	2,241
Community Center	757
Risk Management	1,714
Total governmental depreciation expense	<u>\$ 710,835</u>

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

Electric	\$ 292,422
Water	971,577
Sewer system	680,168
Cable TV	455,634
Garbage	37,809
Internet	46,447
Total business-type depreciation expense	<u>\$ 2,484,057</u>

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6 – Long-Term Liabilities

Changes during fiscal year 2008 and balances as of June 30, 2008, including the current portions, of the City were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
GOVERNMENTAL ACTIVITIES:					
Other liabilities:					
Capital leases	\$ 130,000	\$ 0	\$ (40,000)	\$ 90,000	\$ 40,000
Total other liabilities	<u>130,000</u>	<u>0</u>	<u>(40,000)</u>	<u>90,000</u>	<u>40,000</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
BUSINESS-TYPE ACTIVITIES:					
Bonds and notes payable:					
Series 1997	3,055,000	0	(225,000)	2,830,000	235,000
Series 2001	17,520,000	0	(925,000)	16,595,000	965,000
Series 2003	1,315,000	0	(430,000)	885,000	440,000
	<u>21,890,000</u>	<u>0</u>	<u>(1,580,000)</u>	<u>20,310,000</u>	<u>1,640,000</u>
Less:					
Unamortized issuance costs	369,963	0	(39,693)	330,270	39,693
Deferred amount on refunding	113,570	0	(30,212)	83,358	29,012
Total bonds and notes payable	<u>21,406,467</u>	<u>0</u>	<u>(1,510,095)</u>	<u>19,896,372</u>	<u>1,571,295</u>
Business-type activities					
Long-term liabilities	<u>\$ 21,406,467</u>	<u>\$ 0</u>	<u>\$ (1,510,095)</u>	<u>\$ 19,896,372</u>	<u>\$ 1,571,295</u>

Revenue bonds are not included in the calculation of the City's legal debt margin in accordance with the Kentucky Constitution. Since there are no general obligation debt issues outstanding, the City has not committed any funds against the legal debt margin.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6 – Long-Term Liabilities (Continued)

The City issues consolidated revenue bonds to finance water, sewer, cable and Internet projects. These departments, plus the electric and garbage departments are reported in a single fund, the Combined Utility Operating Fund. Revenues from all departments are pledged as security for the outstanding revenue bonds. The Electric Department provides electric service for customers within specific boundaries inside the city limits. Water, cable TV and Internet services are provided to city residents, as well as certain county customers. The Water Department also sells water to the Bloomfield, New Haven and the North Nelson Water District in Nelson County, and to Lebanon Junction and the Larue county Water District. Currently sewer service is provided to city residents and to approximately 1,000 county residents, some of whom are billed for sewer service by the North Nelson Water District. Garbage services are provided to all households within the city limits.

General fund resources are used to retire long-term obligations in the governmental activities. Principal and interest requirements to retire the City’s long-term obligations were as follows:

	Capital Leases	
	Principal	Interest
Governmental Activities:		
2009	40,000	2,717
2010	50,000	1,045
Total Governmental Activities	<u>\$ 90,000</u>	<u>\$ 3,762</u>

	Revenue Bonds	
	Principal	Interest
Business-Type Activities		
2009	1,640,000	895,686
2010	1,700,000	831,027
2011	1,795,000	757,857
2012	1,875,000	675,753
2013	1,965,000	589,010
2014-2018	6,565,000	2,002,901
2019-2021	4,770,000	365,749
Total Business-Type Activities	<u>\$ 20,310,000</u>	<u>\$ 6,117,983</u>

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6 – Long-Term Liabilities (Continued)

Other information on the city’s long-term indebtedness is summarized below.

<u>Obligation</u>	Interest Rate	Final Maturity	Original Cost (Capitalized Leases)	Principal Balance	Security
Fire Truck, KLC Lease Pool	4.18%	06/15/10	365,000	90,000	Truck
Utility Revenue Bonds, Series 1997	4.65%- 4.7%	12/01/12		2,830,000	Utility revenues
Utility Revenue Bonds, Series 2001	4%-5%	12/01/20		16,595,000	
Utility Revenue Bonds, Series 2003	1.5% - 2.75%	12/01/09		885,000	

Note 7 – Pensions and Other Post Employment Benefits

All full-time employees of the City belong to the state operated cost-sharing multiple-employer pension plan, the County Employees Retirement System (CERS). Police and firefighters are members of the hazardous-duty benefit plan, while all other employees participate in the non-hazardous duty benefits.

CERS is a defined benefit plan created by the Kentucky General Assembly. CERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits fully vest upon reaching 5 years of service and are established by state statute. Benefits of CERS members are calculated on the basis of age, final average salary, and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

CERS issues a stand-alone financial report, which may be obtained from Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by telephone at 502-564-4646.

Kentucky Revised Statutes provides statutory authority for employee and employer contributions. Employees and the City have contributed 100% of the required contributions for fiscal year ended June 30, 2008. Contribution rates for the fiscal year ended June 30, 2008, were as follows:

	<u>Employee</u>	<u>Employer</u>
Nonhazardous	5.00%	16.17%
Hazardous-duty	8.00%	33.87%

CITY OF BARDSTOWN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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

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

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous-duty</u>
2008	580,611	416,532
2007	451,433	352,201
2006	370,855	288,546

CERS also provides post retirement health care coverage to age and service retirees with 20 or more years of qualifying CERS service credit. A portion of each employer and employee’s contribution to CERS is set aside for the funding of post retirement health care. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board Statement Number 12. KRS provides statutory authority requiring public employers to fund post retirement health care through their contributions to CERS.

The City also provides a 401K plan for its employees who elect to participate. The City does not match any portion of the 401K contributions.

Note 8 – Contingencies

The City participates in several federally assisted programs and is a recipient of several federal and state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. As of June 30, 2008, the audits of these grants and programs were complete through 2007 and the City’s compliance with applicable requirements has been established. The City’s compliance with applicable requirements for 2008 will be established at a future date.

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

Note 9 – Risk Management

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

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 9 – Risk Management (Continued)

Coverage by KMRMA consists of \$2,000,000 in general liability insurance with \$5,000 deductible. Coverage for property risk is \$32,428,534 per occurrence with deductible of \$1,000, per occurrence on all perils. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in recent years.

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

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

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

Changes in the fund's claims liability amounts are:

	<u>2007</u>	<u>2008</u>
Balance at Beginning of Year	93,352	128,247
Current year claims	875,455	743,859
Claims paid	<u>(840,560)</u>	<u>(770,831)</u>
Balance at End of Year	<u>\$ 128,247</u>	<u>\$ 101,275</u>

Note 10 – Related Organizations

The City of Bardstown participates with the County to provide a variety of services with joint funding from both organizations. All entities operate independently with separate management personnel. In most cases, the city and county contribute equal funding for operations. The following table outlines these organizations and the city's contribution during fiscal year 2008.

CITY OF BARDSTOWN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 10 – Related Organizations (Continued)

Organization	Contribution
Planning Commission	\$ 37,741
Nelson County Economic Development Agency	48,420
Nelson County Chamber of Commerce	6,000
Nelson County Airport	14,800
Nelcasa	1,400
Lincoln Trail ADD	3,112
Bardstown Main Street	15,000

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

Note 11 – Joint Venture

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF BARDSTOWN, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,849,000	\$ 2,849,000	\$ 2,877,383	\$ 28,383
Licenses and permits	12,000	12,000	23,890	11,890
Fines and forfeitures	50,500	50,500	68,415	17,915
Intergovernmental revenues	438,700	738,700	791,676	52,976
Charges for services	416,800	416,800	268,348	(148,452)
Interest	100,000	100,000	45,865	(54,135)
Other	58,500	58,500	77,657	19,157
Total Revenues	<u>3,925,500</u>	<u>4,225,500</u>	<u>4,153,234</u>	<u>(72,266)</u>
Expenditures:				
Current:				
General government	844,650	1,144,650	1,198,480	(53,830)
Finance	630,600	630,600	649,686	(19,086)
Public safety	2,024,900	2,024,900	1,957,790	67,110
Fire	842,200	842,200	792,033	50,167
Recreation	425,750	425,750	434,356	(8,606)
Risk management	74,800	74,800	72,566	2,234
Community Center	203,450	203,450	175,188	28,262
Streets	313,350	313,350	318,899	(5,549)
Capital outlay	318,800	318,800	474,684	(155,884)
Debt service:				
Principal	40,000	40,000	40,000	0
Interest	6,000	6,000	4,668	1,332
Total Expenditures	<u>5,724,500</u>	<u>6,024,500</u>	<u>6,118,350</u>	<u>(93,850)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,799,000)</u>	<u>(1,799,000)</u>	<u>(1,965,116)</u>	<u>(166,116)</u>
Other Financing Sources (Uses):				
Transfers in	2,068,500	2,068,500	2,207,981	139,481
Transfers out	(249,315)	(249,315)	(159,184)	90,131
Total Other Financing Sources (Uses)	<u>1,819,185</u>	<u>1,819,185</u>	<u>2,048,797</u>	<u>229,612</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	20,185	20,185	83,681	63,496
Fund Balances, Beginning of Year	<u>0</u>	<u>0</u>	<u>1,149,655</u>	<u>1,149,655</u>
Fund Balances, End of Year	<u>\$ 20,185</u>	<u>\$ 20,185</u>	<u>\$ 1,233,336</u>	<u>\$ 1,213,151</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2008

	<u>Municipal Road Aid</u>	<u>Land Acquisition and Building</u>	<u>E911</u>	<u>Law Enforcement</u>	<u>Cemetery</u>	<u>Total Other Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 20,098	\$ 47,970	\$ 172,136	\$ 1,292	\$ 12,371	\$ 253,867
Investments	60,000	410,000	90,000	37,625	136,000	733,625
Restricted Investments	0	0	0	0	103,041	103,041
Accrued receivables	612	2,783	143,373	1,091	2,883	150,742
Prepaid items	<u>0</u>	<u>0</u>	<u>8,687</u>	<u>0</u>	<u>0</u>	<u>8,687</u>
Total Assets	<u>80,710</u>	<u>460,753</u>	<u>414,196</u>	<u>40,008</u>	<u>254,295</u>	<u>1,249,962</u>
Liabilities						
Accounts payable	0	0	12,144	0	0	12,144
Due to other funds	<u>0</u>	<u>12,564</u>	<u>293,624</u>	<u>100</u>	<u>5,644</u>	<u>311,932</u>
Total Liabilities	0	12,564	305,768	100	5,644	324,076
Fund Balances						
Reserved for:						
Special projects	<u>80,710</u>	<u>448,189</u>	<u>108,428</u>	<u>39,908</u>	<u>248,651</u>	<u>925,886</u>
Total Liabilities and Fund Balances	<u>\$ 80,710</u>	<u>\$ 460,753</u>	<u>\$ 414,196</u>	<u>\$ 40,008</u>	<u>\$ 254,295</u>	<u>\$ 1,249,962</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Municipal Road Aid	Land Acquisition and Building	E911	Law Enforcement	Cemetery	Total Nonmajor Funds
Revenues						
Intergovernmental	\$ 177,468	\$ 15,000	\$ 401,280	\$ 0	\$ 0	\$ 593,748
Charges for services	0	0	214,792	0	44,335	259,127
Interest	7,125	19,454	6,289	2,038	9,423	44,329
Other	0	20,976	11,013	0	100	32,089
Total Revenues	184,593	55,430	633,374	2,038	53,858	929,293
Expenditures						
Current:						
General government	0	10,034	0	0	0	10,034
Public safety	3,400	0	425,446	6,037	0	434,883
Cemetery	0	0	0	0	21,657	21,657
Capital outlay	0	0	307,717	0	0	307,717
Total Expenditures	3,400	10,034	733,163	6,037	21,657	774,291
Excess (Deficiency) of Revenues Over Expenditures	181,193	45,396	(99,789)	(3,999)	32,201	155,002
Other Financing Sources (Uses):						
Transfers out	(160,000)	(113,748)	0	0	0	(273,748)
Total Other Financing Sources (Uses)	(160,000)	(113,748)	0	0	0	(273,748)
Net Change in Fund Balances	21,193	(68,352)	(99,789)	(3,999)	32,201	(118,746)
Fund Balances, Beginning of Year	59,517	516,541	208,217	43,907	216,450	1,044,632
Fund Balances, End of Year	\$ 80,710	\$ 448,189	\$ 108,428	\$ 39,908	\$ 248,651	\$ 925,886

CITY OF BARDSTOWN, KENTUCKY
COMBINING BALANCE SHEET –
NON-MAJOR PROPRIETARY FUNDS
 June 30, 2008

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement Fund	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Assets						
Current Assets:						
Accrued interest	\$ 21,923	\$ 84,869	\$ 0	\$ 26,321	\$ 8,719	\$ 141,832
Total Current Assets	21,923	84,869	0	26,321	8,719	141,832
Noncurrent Assets:						
Restricted Assets:						
Cash	0	0	627,477	25,762	35,000	688,239
Investments	491,731	2,527,007	0	1,721,000	177,452	4,917,190
Total Noncurrent Assets	491,731	2,527,007	627,477	1,746,762	212,452	5,605,429
Total Assets	513,654	2,611,876	627,477	1,773,083	221,171	5,747,261
Liabilities						
Current Liabilities:						
Due to other funds	0	0	53,431	0	0	53,431
Total Liabilities	0	0	53,431	0	0	53,431
Net Assets						
Restricted for:						
Bond reserves	213,654	2,611,876	0	0	0	2,825,530
Systemcapacity reserve	0	0	0	1,773,083	0	1,773,083
Construction Fund	0	0	574,046	0	0	574,046
Other purposes	300,000	0	0	0	221,171	521,171
Total Net Assets	513,654	2,611,876	574,046	1,773,083	221,171	5,693,830
Total Liabilities and Net Assets	\$ 513,654	\$ 2,611,876	\$ 627,477	\$ 1,773,083	\$ 221,171	\$ 5,747,261

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET ASSETS – NON-MAJOR PROPRIETARY FUNDS
June 30, 2008

	Depreciation Reserve	Operating and Maintenance Reserve	Construction Fund	Water and Wastewater Enhancement	Lagoon Cleaning Fund	Total Non-Major Enterprise Funds
Operating Revenues:						
System development charges	\$ 0	\$ 0	\$ 0	\$ 146,939	\$ 0	146,939
Total Operating Revenues	0	0	0	146,939	0	146,939
Operating Expenses:						
Contractual services	0	0	40,297	5,511	0	45,808
Total Operating Expenses	0	0	40,297	5,511	0	45,808
Income (Loss) from Operations	0	0	(40,297)	141,428	0	101,131
Nonoperating Revenues (Expenses):						
Investment earnings	25,457	99,575	57,558	81,477	8,719	272,786
Total Nonoperating Revenues (Expenses)	25,457	99,575	57,558	81,477	8,719	272,786
Income (Loss) Before Contributions and Transfers	25,457	99,575	17,261	222,905	8,719	373,917
Transfers in	0	0	0	0	35,000	35,000
Transfers out	0	(115,000)	(723,295)	0	0	(838,295)
Change in Net Assets	25,457	(15,425)	(706,034)	222,905	43,719	(429,378)
Net Assets, Beginning of Year	488,197	2,627,301	1,280,080	1,550,178	177,452	6,123,208
Net Assets, End of Year	\$ 513,654	\$ 2,611,876	\$ 574,046	\$ 1,773,083	\$ 221,171	\$ 5,693,830

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS
June 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
Operating Revenues:							
Charges for services	\$ 11,794,013	\$ 3,603,978	\$ 2,319,139	\$ 3,653,872	\$ 1,173,235	\$ 1,400,372	\$ 23,944,609
Utility surcharge	2,445	0	0	0	0	0	2,445
Connection fees	0	73,475	35,907	69,441	0	38,626	217,449
Contract services	151,306	0	20,399	125,948	0	0	297,653
Penalties	142,983	0	0	63,227	0	0	206,210
Miscellaneous	279,379	46,762	2,143	16,431	71,556	0	416,271
Total Operating Revenues	<u>12,370,126</u>	<u>3,724,215</u>	<u>2,377,588</u>	<u>3,928,919</u>	<u>1,244,791</u>	<u>1,438,998</u>	<u>25,084,637</u>
Operating Expenses:							
Purchases for resale	8,348,691	0	0	2,066,127	0	0	10,414,818
Personal services	580,285	1,425,647	555,592	701,127	672,836	126,958	4,062,445
Contractual services	66,740	105,755	138,739	69,011	288,209	33,763	702,217
Materials and supplies	89,482	438,012	126,841	368,190	112,724	73,628	1,208,877
Maintenance and repairs	85,503	210,578	79,483	42,771	56,630	534	475,499
Other expenses	110,206	404,130	371,547	249,850	27,400	216,813	1,379,946
Depreciation	292,422	971,578	680,168	455,634	37,809	46,447	2,484,058
Total Operating Expenses	<u>9,573,329</u>	<u>3,555,700</u>	<u>1,952,370</u>	<u>3,952,710</u>	<u>1,195,608</u>	<u>498,143</u>	<u>20,727,860</u>
Income From Operations	<u>\$ 2,796,797</u>	<u>\$ 168,515</u>	<u>\$ 425,218</u>	<u>\$ (23,791)</u>	<u>\$ 49,183</u>	<u>\$ 940,855</u>	<u>\$ 4,356,777</u>

CITY OF BARDSTOWN, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NET ASSETS – COMBINED UTILITIES OPERATING DEPARTMENTS (CONTINUED)
 June 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Cable TV</u>	<u>Garbage</u>	<u>Internet</u>	<u>Total Operating</u>
Nonoperating Revenues (Expenses):							
Interest and investment revenue	\$ 303,076	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 303,076
Lease revenue	0	7,000	0	0	0	0	7,000
Total Nonoperating Revenue (Expenses)	<u>303,076</u>	<u>7,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>310,076</u>
Income Before Contributions and Transfers	3,099,873	175,515	425,218	(23,791)	49,183	940,855	4,666,853
Capital contributions	0	113,324	387,550	0	0	0	500,874
Transfers in	0	273,167	450,128	525,000	0	0	1,248,295
Transfers out	<u>(1,074,881)</u>	<u>(1,176,277)</u>	<u>(1,304,141)</u>	<u>(317,768)</u>	<u>(68,958)</u>	<u>(582,884)</u>	<u>(4,524,909)</u>
Change in Net Assets	<u>\$ 2,024,992</u>	<u>\$ (614,271)</u>	<u>\$ (41,245)</u>	<u>\$ 183,441</u>	<u>\$ (19,775)</u>	<u>\$ 357,971</u>	1,891,113
Net Assets, Beginning of Year							<u>61,846,391</u>
Net Assets, End of Year							<u>\$ 63,737,504</u>

CITY OF BARDSTOWN, KENTUCKY
SCHEDULE OF COMMENT AND RECOMMENDATION
June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Bardstown, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of the City of Bardstown, Kentucky was disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

The City of Bardstown, Kentucky Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The City had insufficient collateral pledged with one financial institution on June 30, 2008. However, the City had executed a written agreement with this depository institution to maintain sufficient collateral. Therefore, it is not an audit comment in the current year.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bardstown, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements for the year ended June 30, 2008, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Perry and Gray, PSC

November 14, 2008