

**CITY OF BERA**  
**Berea, Kentucky**



**FINANCIAL STATEMENTS**  
**June 30, 2009**

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## **City of Berea, Kentucky**

### **Management's Discussion and Analysis**

Our discussion and analysis of the City of Berea's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2009. Please read the following in conjunction with the auditors' report on page 10 and the City's financial statements, which begin to appear on page 11.

#### **OVERVIEW OF THIS ANNUAL REPORT**

This annual report consists of the management's discussion and analysis report, the independent auditor's report, the basic financial statements of the City, and the independent auditor's report on compliance and the single audit report on federal awards. The financial statements also include notes that explain in more detail some of the information in the financial statements.

In the past, the primary focus of local government financial statements has been summarized fund type information on a current financial resource basis. This approach has been modified; the City's financial statements now present two kinds of statements, each with a different snapshot of the City's finances. The new focus is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements, which have been provided in the past, focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

#### **GOVERNMENT – WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City's activities in a way that will help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net assets of the City and the changes in them. One can think of the City's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health or position is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

**Governmental activities**—Most of the City’s basic services are reported here, including general government administration, police, police administration, fire, streets, codes, parks, GIS, economic development, and tourism. Property taxes, licenses and permits (including occupational licenses fees, insurance tax and franchise fees), and grants finance most of these activities.

**Business-type activities**—The City collects fees from customers to cover the costs of the services, provided by the Berea Municipal Utilities. Utilities now include electric, water, sewer and the operation of the landfill processing plant.

## **FUND FINANCIAL STATEMENTS**

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City’s funds. The fund financial statements provide more information about the City’s funds and not the City as a whole.

The City has two kinds of funds:

**Governmental Fund**—Most of the City’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets, that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom the governmental funds statement that explains the relationship (or differences) between them.

**Proprietary Fund**—Services for which the City charges customers a fee are generally reported in proprietary funds.

## NET ASSETS

Our analysis begins with a summary of the City's Statement of Net Assets, which is presented on Table A-1 followed by an explanation of the results. Changes in net assets are presented in Table A-2, which is also followed by an explanation of the results.

**Table A-1**

			<b>2009</b>	<b>2008</b>
	<b>Governmental</b>	<b>Business-type</b>	<b>Primary</b>	<b>Primary</b>
	<b>Activities</b>	<b>Activities</b>	<b>Government</b>	<b>Government</b>
Current and Other Assets	\$ 9,203,587	\$ 14,662,764	\$ 23,866,351	\$ 25,757,486
Capital Assets	<u>18,684,378</u>	<u>35,922,733</u>	<u>54,607,111</u>	<u>48,403,803</u>
Total Assets	<u>27,887,965</u>	<u>50,585,497</u>	<u>78,473,462</u>	<u>74,161,289</u>
Long-Term Outstanding	3,192,728	20,525,058	23,717,786	26,354,527
Current Liabilities	<u>3,160,673</u>	<u>5,358,532</u>	<u>8,519,205</u>	<u>5,406,162</u>
Total Liabilities	<u>6,353,401</u>	<u>25,883,590</u>	<u>32,236,991</u>	<u>31,760,689</u>
Net Assets:				
Invested in Capital Assets, net of debt	13,737,086	12,938,572	26,675,658	19,930,950
Restricted	1,087,696	362,313	1,450,009	1,759,569
Unrestricted	<u>6,709,782</u>	<u>11,401,022</u>	<u>18,110,804</u>	<u>20,710,081</u>
Total Net Assets	<u>\$ 21,534,564</u>	<u>\$ 24,701,907</u>	<u>\$ 46,236,471</u>	<u>\$42,400,600</u>

Net assets from one activity generally cannot be used to make up for any deficits in the other activities.

**Table A-2**

**Condensed Statement of Activities**

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>2009 Total Primary Government</u></b>	<b><u>2008 Total Primary Government</u></b>
<b>Revenues</b>				
<b><u>Program Revenues</u></b>				
Charges for Service	\$ 200,834	\$ 13,387,361	\$ 13,588,195	\$12,990,455
Operating Grants & Contributions	3,378,553	-	3,378,553	1,024,929
Capital Grants & Contributions	96,532	285,387	381,919	1,043,278
<b><u>General Revenue</u></b>				
Taxes	1,621,193	-	1,621,193	1,574,138
License Fees	6,684,181	-	6,684,181	6,787,719
Permits	74,731	-	74,731	94,947
Grants & Contributions Not Restricted to Specific Programs	-	-	-	-
Investment Earnings	188,351	258,372	446,723	632,329
Other Revenues	<u>194,252</u>	<u>-</u>	<u>194,252</u>	<u>196,200</u>
<b>Total Revenue</b>	<b><u>12,438,627</u></b>	<b><u>13,931,120</u></b>	<b><u>26,369,747</u></b>	<b><u>24,343,995</u></b>
<b>Program Expenses</b>				
General Government	1,644,323	-	1,644,323	1,559,821
Public safety-Police	2,237,617	-	2,237,617	2,160,683
Public safety-Fire	1,298,697	-	1,298,697	1,298,162
Public works	1,744,324	-	1,744,324	1,454,637
Codes enforcement	316,477	-	316,477	304,936
Parks and Recreation	782,466	-	782,466	772,314
Sanitation	12,744	-	12,744	15,626
GIS/Surveying	124,984	-	124,984	122,883
Business Development	63,601	-	63,601	64,427
Tourism	664,362	-	664,362	598,891
Industrial Development	-	-	-	34,295
State Contracts	622,967	-	622,967	184,522
Interest on long-term debt	190,621	-	190,621	124,895
Utilities	<u>-</u>	<u>12,830,693</u>	<u>12,830,693</u>	<u>12,152,802</u>
<b>Total program expenses</b>	<b><u>9,703,183</u></b>	<b><u>12,830,693</u></b>	<b><u>22,533,876</u></b>	<b><u>20,848,894</u></b>
Eliminate landfill closure Obligation	-	-	-	995,421
Loss on sale of Property	-	-	-	(185,570)
Transfers in(out)	<u>(93,663)</u>	<u>93,663</u>	<u>-</u>	<u>-</u>
<b>Net Change In Net Assets</b>	<b><u>\$ 2,641,781</u></b>	<b><u>\$ 1,194,090</u></b>	<b><u>\$ 3,835,871</u></b>	<b><u>\$ 4,304,952</u></b>

The City's change in Net Assets above appears to be analogous to the long-standing concept of net revenues, but under the full accrual basis utilized by the Governmental Activities these numbers include dollars of "paper" depreciation expenses that are not cash expenditures of the City. These "paper" bookkeeping entries are never considered as part of the City's budget process. The principal portions of debt obligations are excluded from the above but are reflected

as debt service expenditures along with capital outlay expenditures in the City’s budget for governmental activities. The business-type activities have always been on the full accrual basis.

**GOVERNMENTAL ACTIVITIES**

Table A-3 details a condensed statement of the fiscal year’s governmental activities.

**Condensed Governmental Activities – Revenues & Expenditures**

	<b>2009</b>	<b>2008</b>
Taxes	\$ 1,621,193	\$ 1,574,138
Licenses and permits	6,758,912	6,882,666
Intergovernmental	3,378,553	1,531,597
Fines & Forfeits	4,195	5,547
Sale of Property	-	-
Charges for Services	200,834	231,908
Other Revenues	<u>474,940</u>	<u>467,292</u>
Total Revenues	<u>12,438,627</u>	<u>10,693,148</u>
General Government	1,562,716	1,493,232
Public safety-Police	2,106,088	2,022,686
Public safety-Fire	1,186,399	1,187,772
Public works-Streets	1,420,354	1,237,319
Codes Enforcement	306,765	295,007
Parks and Recreation	638,785	589,819
Sanitation	-	173
GIS/Surveying	113,484	112,013
Business Development	63,601	64,427
Tourism	641,695	578,284
Industrial Development	-	34,295
State Contracts	622,967	184,522
Debt service	1,079,479	612,264
Capital outlay	<u>6,054,650</u>	<u>2,100,320</u>
Total Expenditures	<u>15,796,983</u>	<u>10,512,133</u>
Excess Expenditures over Revenues (deficiency) before other financing sources	<u>\$ (3,358,356)</u>	<u>\$ 181,015</u>

The bottom number of Table A-3 above, should not be confused with the end-of-year “Fund Balance” figure shown in the City’s General Fund Budget, because the above does not reflect the General Fund’s beginning-of-year balance and any debt proceeds received during the fiscal year.

## BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended the General Fund. Amendments were made after the beginning of the calendar year to reflect the actual beginning balances after the beginning of said calendar year or due to unusual events that occurred during the fiscal year. The budget contains proposed expenditures and expected revenues. A comparison of the final amended budget to actual amounts for governmental activities is presented in the table below (Tables A-4 & 5).

**Table A-4**

### Condensed Governmental Activities - Revenues

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Taxes	\$ 615,940	\$ 693,885	\$ 77,945
Licenses and permits	6,241,900	6,758,912	517,012
Intergovernmental	282,900	314,977	32,077
Fines & Forfeits	5,000	4,195	(805)
Charges for Service	179,100	197,104	18,004
Other Revenues	<u>351,625</u>	<u>348,522</u>	<u>(3,103)</u>
Total Revenues	<u>\$ 7,676,465</u>	<u>\$ 8,317,595</u>	<u>\$ 641,130</u>

**Table A-5**

### Condensed Governmental Activities – Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Government	\$ 1,833,092	\$ 1,562,652	\$ (270,440)
Public safety-Police	2,302,481	2,051,979	(250,502)
Public safety-Fire	1,333,078	1,186,399	(146,679)
Public works-Streets	1,262,763	1,189,091	(73,672)
Codes Enforcement	334,290	306,765	(27,525)
Parks and Recreation	864,372	636,235	(228,137)
GIS/Surveying	136,462	113,484	(22,978)
Business Development	77,600	63,601	(13,999)
Capital Outlay	830,177	393,046	(437,131)
Debt service	<u>-</u>	<u>7,790</u>	<u>7,790</u>
	<u>\$ 8,974,315</u>	<u>\$ 7,511,042</u>	<u>\$ (1,463,273)</u>

The City budgeted for a total of \$7,676,465 in revenues for 2008-2009, but ended up having revenues of \$8,317,595. In other words, the City received 108 percent of all budgeted revenues. A total of \$8,974,315 was budgeted for expenses, but expenditures only totaled \$7,511,042 at the end of 2009. The City was under budget on the expenses by more than 16 percent.



## CAPITAL ASSETS

Table A-1 showed summary totals for a broad range of capital assets, including police and fire equipment and vehicles, buildings, land, street equipment, donated capital, and all of the equipment and materials involved in the operation of a sanitary sewer utility. Table A-6 shows the breakdown of non-depreciated capital assets for both governmental and business-type activities.

**Table A-6**

Capital Assets at Year End Without Depreciation	Governmental	Business-type	2009	2008
	<u>Activities</u>	<u>Activities</u>	<u>Total</u> <u>Primary</u> <u>Government</u>	<u>Total</u> <u>Primary</u> <u>Government</u>
Land	\$ 4,052,134	\$ 106,882	\$ 4,159,016	\$ 4,314,418
Land Improvements	677,330	-	677,330	677,330
Construction in Progress	2,726,690	3,386,429	6,113,119	2,250,159
Infrastructure	6,813,859	-	6,813,859	2,837,020
Buildings	5,771,880	1,815,243	7,587,123	7,315,078
Vehicles	3,380,180	407,056	3,787,236	3,867,561
Equipment	2,030,668	550,504	2,581,172	2,346,710
Plant & Sewer System	-	25,724,539	25,724,539	25,692,618
Electric system	-	9,988,712	9,988,712	9,738,268
Water system	-	8,416,567	8,416,567	8,219,050
Total Capital Assets	<u>\$ 25,452,741</u>	<u>\$ 50,395,932</u>	<u>\$ 75,848,673</u>	<u>\$ 67,258,212</u>

## DEBT

Table A-7 provides a summary of all of the City's outstanding indebtedness.

<u>Debt Outstanding at Year End</u>			2009	2008
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Total Primary Government</u>
Leases	\$ 8,276	\$ -	\$ 8,276	\$ 16,067
Bonds Payable	3,810,000	17,250,000	21,060,000	22,435,000
Loans Payable	672,862	5,734,161	6,407,023	5,518,649
Compensated Absences	<u>456,154</u>	<u>-</u>	<u>456,154</u>	<u>437,220</u>
Total Debt Outstanding	<u>\$ 4,947,292</u>	<u>\$ 22,984,161</u>	<u>\$ 27,931,453</u>	<u>\$28,406,936</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

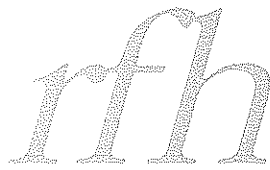
Current economic conditions continue to apply pressure on the day to day operation of the City. During the past fiscal year, at least nine hundred jobs were lost in the City, most in the manufacturing sector. Cash flow has been greatly reduced, making it necessary to carefully plan payments to vendors while having sufficient funds available to meet a bi-weekly payroll. Had it not been for the diversification of revenues last year our city would now be in a situation where a number of jobs in City government would have to be cut in an effort to balance our budget while keeping a satisfactory reserve for unexpected needs. More than \$500K in capital expenditures and projects were cut from our present budget as compared to last year's budget. Capital spending for projects has been limited to only those that were in progress at the beginning of the fiscal year. Next year's budget will be a challenge for management because current economic indicators point to lower than expected revenue streams, based on the number of lost jobs. This will result in the need to further reduce spending. Professionalism in fiscal management is evident in the results of this audit and will continue to be the goal of both the elected officials and the staff of the City of Berea.

## UTILITIES

The Utilities Department continued its infrastructure improvement efforts in all divisions. The electric division converted much of the Burnamwood Subdivision and the Scaffold Cane Road circuits to the higher 7200 volt system. The water division began construction of the upgrade and enlargement of the Water Treatment Plant project. Although very preliminary, talks have begun on the building of a new reservoir impoundment for additional raw water storage. Automatic radio read meters are being installed for both electric and water services. The sewer division continued to oversee the work on the Stoney Creek development, monitoring the construction of the force main and pump station. Water line projects completed by developers and accepted by the City as contributed capital included Logan Court Subdivision, Burchwood Subdivision-Phase II, Whispering Oaks Subdivision, Pinnacle View Subdivision and Homestead Estates-Keith Drive.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens of the City, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carol Richmond or Randy Stone, at 212 Chestnut Street, Berea, Kentucky 40403.



# Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

## INDEPENDENT AUDITORS' REPORT

Dennis H. England, CPA  
Michael D. Foley, CPA  
Lyman Hager, Jr., CPA  
Jerry W. Hensley, CPA

Mayor and the City Council  
City of Berea  
Berea, Kentucky

J. Carroll Luby, CPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2009, and for the year then ended, 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 Berea, Kentucky's management. Our responsibility is to express an opinion 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 general purpose 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 opinion.

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 and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2009, 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 1 through 9 and 32 through 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated October 9, 2009, on our consideration of the City of Berea, Kentucky's internal control over financial reporting and on our tests of its compliance with certain 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 on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**, and is also not a required part of the basic financial statements of the City of Berea, Kentucky. The supplemental schedules on pages 38 and 39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Ray, Foley, Hensley, & Company*

Ray, Foley, Hensley, & Company, PLLC

October 9, 2009

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**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2009**

	Primary Government			2008 Total
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 6,962,175	\$ 458,295	\$ 7,420,470	\$ 11,340,546
Investments	-	7,735,000	7,735,000	7,735,000
Receivables (net)	1,702,070	1,799,644	3,501,714	3,236,053
Other receivable	-	150,000	150,000	-
Interest receivable	61,468	77,887	139,355	257,572
Prepaid expenses	418,549	128,221	546,770	-
Internal balances	-	230,644	230,644	224,699
Total current assets	<u>9,144,262</u>	<u>10,579,691</u>	<u>19,723,953</u>	<u>22,793,870</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	2,984,195	2,984,195	1,931,505
Inventory	-	645,394	645,394	551,599
Capital assets (Note 3)				
Construction in progress	2,726,690	3,386,429	6,113,119	2,250,159
Land	4,052,134	-	4,052,134	4,052,134
Land improvements, net	595,450	1,688,087	2,283,537	2,346,258
Depreciable infrastructure, net	6,293,526	-	6,293,526	2,528,400
Plant and sewer system, net	-	15,029,010	15,029,010	15,799,862
Plant and electric system, net	-	8,135,991	8,135,991	8,298,715
Plant and water system, net	-	7,288,157	7,288,157	7,338,465
Depreciable buildings, property, and equipment, net	5,016,578	395,059	5,411,637	5,723,893
Other assets	59,325	453,484	512,809	546,429
Total noncurrent assets	<u>18,743,703</u>	<u>40,005,806</u>	<u>58,749,509</u>	<u>51,367,419</u>
Total assets	<u>\$ 27,887,965</u>	<u>\$ 50,585,497</u>	<u>\$ 78,473,462</u>	<u>\$ 74,161,289</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 823,090	\$ 1,598,405	\$ 2,421,495	\$ 1,487,441
Accrued leave payable	153,856	193,497	347,353	347,914
Accrued liabilities	198,519	54,447	252,966	236,541
Other liabilities	-	79,281	79,281	65,879
Accrued interest payable	-	346,404	346,404	361,708
Customer deposits	-	627,395	627,395	629,571
Internal balances	230,644	-	230,644	224,699
Current portion of long-term obligations (Notes 4 & 5)	1,754,564	2,459,103	4,213,667	2,052,409
Total current liabilities	<u>3,160,673</u>	<u>5,358,532</u>	<u>8,519,205</u>	<u>5,406,162</u>
Noncurrent liabilities				
Noncurrent portion of long-term obligations (Notes 4 & 5)	3,192,728	20,525,058	23,717,786	26,354,527
Total Liabilities	<u>6,353,401</u>	<u>25,883,590</u>	<u>32,236,991</u>	<u>31,760,689</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	13,737,086	12,938,572	26,675,658	19,930,950
Restricted for				
Debt service	21	362,313	362,334	377,254
Other purposes	1,087,675	-	1,087,675	1,382,315
Unrestricted	6,709,782	11,401,022	18,110,804	20,710,081
Total net assets	<u>21,534,564</u>	<u>24,701,907</u>	<u>46,236,471</u>	<u>42,400,600</u>
Total liabilities and net assets	<u>\$ 27,887,965</u>	<u>\$ 50,585,497</u>	<u>\$ 78,473,462</u>	<u>\$ 74,161,289</u>

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

**CITY OF BERA, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2008 Total				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government						
					Governmental Activities	Business-type Activities		Total			
<b>Primary government</b>											
<b>Governmental activities</b>											
General government	\$ 1,644,323	\$ -	\$ -	\$ -	\$ (1,644,323)	\$ -	\$ (1,644,323)	\$ (1,559,821)			
Public safety-Police	2,237,617	63,263	199,527	-	(1,974,827)	-	(1,974,827)	(1,900,757)			
Public safety-Fire	1,298,697	81	102,268	-	(1,196,348)	-	(1,196,348)	(1,132,899)			
Public works	1,744,324	2,617	175,395	-	(1,566,312)	-	(1,566,312)	(945,864)			
Codes enforcement	316,477	7,219	-	-	(309,258)	-	(309,258)	(295,054)			
Parks and recreation	782,466	126,776	17,500	-	(638,190)	-	(638,190)	(609,584)			
Sanitation	12,744	-	-	-	(12,744)	-	(12,744)	(15,626)			
GIS/Surveying	124,984	878	-	-	(124,106)	-	(124,106)	(122,782)			
Business development	63,601	-	-	-	(63,601)	-	(63,601)	(64,427)			
Tourism	664,362	-	64,312	-	(600,050)	-	(600,050)	(598,891)			
Industrial development	-	-	-	96,532	96,532	-	96,532	(34,295)			
State contracts	622,967	-	2,819,551	-	2,196,584	-	2,196,584	532,308			
Interest on long-term debt	190,621	-	-	-	(190,621)	-	(190,621)	(124,895)			
Total governmental activities	<u>9,703,183</u>	<u>200,834</u>	<u>3,378,553</u>	<u>96,532</u>	<u>(6,027,264)</u>	<u>-</u>	<u>(6,027,264)</u>	<u>(6,872,587)</u>			
<b>Business type activities</b>											
Berea Municipal Utilities	<u>12,830,693</u>	<u>13,387,361</u>	<u>-</u>	<u>285,387</u>	<u>-</u>	<u>842,055</u>	<u>842,055</u>	<u>1,082,355</u>			
Total business-type activities	<u>12,830,693</u>	<u>13,387,361</u>	<u>-</u>	<u>285,387</u>	<u>-</u>	<u>842,055</u>	<u>842,055</u>	<u>1,082,355</u>			
<b>Total primary government</b>	<u>\$ 22,533,876</u>	<u>\$ 13,588,195</u>	<u>\$ 3,378,553</u>	<u>\$ 381,919</u>	<u>(6,027,264)</u>	<u>842,055</u>	<u>(5,185,209)</u>	<u>(5,790,232)</u>			
<b>General revenues</b>											
Taxes:											
Property taxes, levied for general purposes								693,885	-	693,885	656,138
Transient room tax								927,308	-	927,308	918,000
License fees:											
Franchise								984,015	-	984,015	956,186
Payroll								4,575,890	-	4,575,890	4,835,892
Insurance premiums								745,488	-	745,488	671,522
Occupational								378,788	-	378,788	324,119
Permits:											
Building								27,770	-	27,770	47,764
Electric								46,961	-	46,961	47,183
Investment earnings								188,351	258,372	446,723	632,329
Miscellaneous								194,252	-	194,252	196,200
Total general revenues								8,762,708	258,372	9,021,080	9,285,333
Eliminate landfill closure obligation								-	-	-	995,421
Gain (loss) on disposal of property								-	-	-	(185,570)
Transfers in(out)								(93,663)	93,663	-	-
<b>Change in Net Assets</b>								2,641,781	1,194,090	3,835,871	4,304,952
Net assets-beginning								18,892,783	23,507,817	42,400,600	38,095,648
<b>NET ASSETS-ENDING</b>								<u>\$ 21,534,564</u>	<u>\$ 24,701,907</u>	<u>\$ 46,236,471</u>	<u>\$ 42,400,600</u>

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

**CITY OF BEREA, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2009**

	General	Park Improvement Fund	Industrial Development Fund	Mayde Road Fund	Other Governmental Funds	Total Governmental Funds	2008 Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 4,851,652	\$ 659,927	\$ 272,524	\$ 38,824	\$ 1,139,248	\$ 6,962,175	\$ 10,569,581
Receivables, net	1,073,847	-	5,056	75,000	548,167	1,702,070	1,605,799
Interest receivable	53,182	-	5,710	-	2,576	61,468	142,771
Prepaid expenses	418,549	-	-	-	-	418,549	-
Due from other funds	118,571	-	71,200	9,169	377,747	576,687	3,156,198
Other assets	-	59,325	-	-	-	59,325	65,917
<b>Total assets</b>	<b>\$ 6,515,801</b>	<b>\$ 719,252</b>	<b>\$ 354,490</b>	<b>\$ 122,993</b>	<b>\$ 2,067,738</b>	<b>\$ 9,780,274</b>	<b>\$ 15,540,266</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 138,682	\$ 190,797	\$ -	\$ -	\$ 493,611	\$ 823,090	\$ 588,479
Accrued leave payable	153,856	-	-	-	-	153,856	139,663
Accrued liabilities	198,519	-	-	-	-	198,519	181,730
Due to other funds	320,900	-	-	-	486,431	807,331	3,380,897
<b>Total liabilities</b>	<b>811,957</b>	<b>190,797</b>	<b>-</b>	<b>-</b>	<b>980,042</b>	<b>1,982,796</b>	<b>4,290,769</b>
<b>Fund balances</b>							
<b>Unreserved, reported in:</b>							
General fund	5,703,844	528,455	-	-	-	6,232,299	9,867,161
Special revenue funds	-	-	354,490	122,993	1,087,675	1,565,158	1,382,315
Debt service funds	-	-	-	-	21	21	21
<b>Total fund balances</b>	<b>5,703,844</b>	<b>528,455</b>	<b>354,490</b>	<b>122,993</b>	<b>1,087,696</b>	<b>7,797,478</b>	<b>11,249,497</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,515,801</b>	<b>\$ 719,252</b>	<b>\$ 354,490</b>	<b>\$ 122,993</b>	<b>\$ 2,067,738</b>	<b>\$ 9,780,274</b>	<b>\$ 15,540,266</b>

Amounts reported for *governmental activities* in the statement of net assets are different because :

Fund balances reported above	\$ 7,797,478	\$ 11,249,497
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,684,378	13,479,435
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(4,947,292)	(5,836,149)
<b>Net assets of governmental activities</b>	<b>\$ 21,534,564</b>	<b>\$ 18,892,783</b>

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

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2009**

	General	Park Improvement Fund	Industrial Development Fund	Mayde Road Fund	Other Governmental Funds	Total Governmental Funds	2008 Totals
<b>REVENUES</b>							
Taxes	\$ 693,885	\$ -	\$ -	\$ -	\$ 927,308	\$ 1,621,193	\$ 1,574,138
Licenses and permits	6,758,912	-	-	-	-	6,758,912	6,882,666
Charges for services	197,104	3,730	-	-	-	200,834	231,908
Fines and forfeits	4,195	-	-	-	-	4,195	5,547
Intergovernmental	314,977	-	-	2,307,915	755,661	3,378,553	1,531,597
Other revenues	348,522	-	117,795	-	8,623	474,940	467,292
<b>Total revenues</b>	<u>8,317,595</u>	<u>3,730</u>	<u>117,795</u>	<u>2,307,915</u>	<u>1,691,592</u>	<u>12,438,627</u>	<u>10,693,148</u>
<b>EXPENDITURES</b>							
Current:							
General administration	1,562,652	29	-	-	35	1,562,716	1,493,232
Public safety-police	2,051,979	-	-	-	54,109	2,106,088	2,022,686
Public safety-fire	1,186,399	-	-	-	-	1,186,399	1,187,772
Public works	1,189,091	-	-	-	231,263	1,420,354	1,237,319
Codes enforcement	306,765	-	-	-	-	306,765	295,007
Parks and recreation	636,235	-	-	-	2,550	638,785	589,819
Sanitation	-	-	-	-	-	-	173
GIS/Surveying	113,484	-	-	-	-	113,484	112,013
Business development	63,601	-	-	-	-	63,601	64,427
Tourism	-	-	-	-	641,695	641,695	578,284
Industrial development	-	-	-	-	-	-	34,295
State contracts	-	-	10,583	1,177	611,207	622,967	184,522
Capital outlay	393,046	1,743,857	958,989	2,493,745	465,013	6,054,650	2,100,320
Debt service	7,790	6,592	568,188	-	496,909	1,079,479	612,264
<b>Total expenditures</b>	<u>7,511,042</u>	<u>1,750,478</u>	<u>1,537,760</u>	<u>2,494,922</u>	<u>2,502,781</u>	<u>15,796,983</u>	<u>10,512,133</u>
Excess (deficiency) of revenues over expenditures	<u>806,553</u>	<u>(1,746,748)</u>	<u>(1,419,965)</u>	<u>(187,007)</u>	<u>(811,189)</u>	<u>(3,358,356)</u>	<u>181,015</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Note proceeds	-	-	-	-	-	-	3,386,935
Transfers in (out)	(1,594,667)	(1,100,000)	1,503,000	310,000	788,004	(93,663)	(51,668)
<b>Total other financing sources and uses</b>	<u>(1,594,667)</u>	<u>(1,100,000)</u>	<u>1,503,000</u>	<u>310,000</u>	<u>788,004</u>	<u>(93,663)</u>	<u>3,335,267</u>
<b>Net change in fund balances</b>	<u>(788,114)</u>	<u>(2,846,748)</u>	<u>83,035</u>	<u>122,993</u>	<u>(23,185)</u>	<u>(3,452,019)</u>	<u>3,516,282</u>
Fund balances-beginning	6,491,958	3,375,203	271,455	-	1,110,881	11,249,497	7,733,215
<b>Fund balances-ending</b>	<u>\$ 5,703,844</u>	<u>\$ 528,455</u>	<u>\$ 354,490</u>	<u>\$ 122,993</u>	<u>\$ 1,087,696</u>	<u>\$ 7,797,478</u>	<u>\$ 11,249,497</u>
Reconciliation to government-wide change in net assets:							
Net change in fund balances						\$ (3,452,019)	\$ 3,516,282
add: capital outlay expenditures capitalized						6,054,650	2,100,320
add: donated trailer						-	60,000
add: debt service expenditures						1,079,479	612,264
add: elimination of landfill closure obligation						-	995,421
less: change in sick pay which does not require current financial resources						(18,933)	(32,911)
less: lease proceeds						-	(11,935)
less: note proceeds						-	(3,375,000)
less: depreciation on governmental activities assets						(849,708)	(738,738)
less: interest on long term debt						(171,688)	(124,895)
less: loss on disposal of property						-	(185,570)
Change in net assets Governmental Activities						<u>\$ 2,641,781</u>	<u>\$ 2,815,238</u>

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



**CITY OF BEREA, KENTUCKY  
BALANCE SHEET  
PROPRIETARY FUNDS  
June 30, 2009**

	<b>Business Type Activities</b>	
	<b>Utilities</b>	
	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 458,295	\$ 770,965
Investments	7,735,000	7,735,000
Receivables (net)	1,799,644	1,630,254
Other receivable	150,000	-
Interest receivable	77,887	114,801
Prepaid expenses	128,221	-
Due from (to) other funds	<u>230,644</u>	<u>224,699</u>
Total current assets	<u>10,579,691</u>	<u>10,475,719</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,984,195	1,931,505
Inventory	645,394	551,599
Capital assets		
Construction in progress	3,386,429	1,207,896
Land, easements and buildings	1,922,125	1,922,125
Plant and electric equipment	9,988,712	9,738,268
Plant and water equipment	8,416,567	8,219,050
Plant and sewer equipment	25,724,539	25,692,618
Vehicle and equipment	957,560	957,560
Less accumulated depreciation	(14,473,199)	(12,879,066)
Other assets, (net)	<u>453,484</u>	<u>480,512</u>
Total noncurrent assets	<u>40,005,806</u>	<u>37,822,067</u>
Total assets	<u>\$ 50,585,497</u>	<u>\$ 48,297,786</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 1,598,405	\$ 898,962
Accrued leave payable	193,497	208,251
Accrued taxes	54,447	54,811
Other liabilities	79,281	65,879
Accrued interest payable	346,404	361,708
Customer Deposits	627,395	629,571
Bonds, notes, and loans payable	<u>2,459,103</u>	<u>1,006,723</u>
Total current liabilities	5,358,532	3,225,905
Noncurrent liabilities		
Bonds, notes, and loans payable	<u>20,525,058</u>	<u>21,564,064</u>
Total liabilities	<u>25,883,590</u>	<u>24,789,969</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,938,572	12,287,664
Restricted for debt service	362,313	377,233
Unrestricted	<u>11,401,022</u>	<u>10,842,920</u>
Total net assets	<u>24,701,907</u>	<u>23,507,817</u>
Total liabilities and Net Assets	<u>\$ 50,585,497</u>	<u>\$ 48,297,786</u>

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

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2009**

	<b>Business Type Activities</b>	
	<b>Utilities</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating revenues</b>		
Electric service	\$ 9,044,975	\$ 8,716,113
Water service	2,418,962	2,293,930
Sewer service	1,714,481	1,690,915
Other revenues	<u>208,943</u>	<u>57,589</u>
Total operating revenues	<u>13,387,361</u>	<u>12,758,547</u>
<b>Operating expenses</b>		
Administration	1,063,919	871,652
Electric	7,549,238	7,067,211
Water	1,060,936	990,341
Sewer	790,217	722,692
Landfill	-	102,253
Depreciation and amortization	<u>1,594,131</u>	<u>1,594,410</u>
Total operating expenses	<u>12,058,441</u>	<u>11,348,559</u>
Operating income (loss)	<u>1,328,920</u>	<u>1,409,988</u>
<b>Nonoperating revenues (expenses)</b>		
Interest and investment revenue	258,372	355,691
Interest expense	<u>(772,252)</u>	<u>(804,243)</u>
Total nonoperating revenue (expense)	<u>(513,880)</u>	<u>(448,552)</u>
Income before capital contributions	815,040	961,436
Capital contributions		
Electric, water and sewer connection fees	47,174	93,079
Developer contributions	100,650	336,112
Customer reimbursements - electric	137,563	41,670
Grant revenues	-	5,749
Transfers in (out)	<u>93,663</u>	<u>51,668</u>
<b>Change in net assets</b>	1,194,090	1,489,714
Total net assets-beginning	<u>23,507,817</u>	<u>22,018,103</u>
<b>TOTAL NET ASSETS-ENDING</b>	<u><u>\$ 24,701,907</u></u>	<u><u>\$ 23,507,817</u></u>

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

**CITY OF BEREA, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
for the year ended June 30, 2009**

	<b>Business Type Activities</b>	
	<b>Utilities</b>	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 13,065,431	\$ 12,895,311
Payments to suppliers	(8,133,189)	(8,117,243)
Payments for employee services and benefits	<u>(1,860,991)</u>	<u>(1,716,288)</u>
Net cash provided by operating activities	<u>3,071,251</u>	<u>3,061,780</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfers to other funds	<u>93,663</u>	<u>51,668</u>
Net cash provided (used) by non-capital and related financing activities	<u>93,663</u>	<u>51,668</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	285,387	470,861
Proceeds from long-term debt	1,420,077	-
Principal paid on capital debt	(1,006,703)	(974,403)
Grant revenue	-	5,750
Purchases of capital assets	(479,880)	(654,889)
Purchases of construction in progress	(2,178,533)	(766,266)
Interest paid on capital debt	<u>(723,614)</u>	<u>(777,664)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,683,266)</u>	<u>(2,696,611)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and dividends	<u>258,372</u>	<u>355,691</u>
Net cash provided by investing activities	<u>258,372</u>	<u>355,691</u>
Net increase (decrease) in cash and cash equivalents	740,020	772,528
Balances-beginning of the year	<u>10,437,470</u>	<u>9,664,942</u>
<b>BALANCES-END OF THE YEAR</b>	<u>\$ 11,177,490</u>	<u>\$ 10,437,470</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 1,328,920	\$ 1,409,988
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,594,131	1,594,410
Change in assets and liabilities		
Receivables, net	(319,390)	112,804
Inventory	(93,795)	(58,227)
Prepaid expense	(128,221)	-
Due to/from other funds	(5,945)	(108,643)
Accounts and other payables	697,267	66,190
Accrued expenses	<u>(1,716)</u>	<u>45,258</u>
Net cash provided by operating activities	<u>\$ 3,071,251</u>	<u>\$ 3,061,780</u>

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

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Berea, Kentucky operates under the City Council form of government and provides the following services as authorized by its charter: public safety, public works, recreation, community development, and electric, water, and sewer services. The accounting policies of the City of Berea conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant accounting policies.

**A. Reporting Entity**

The financial statements of the City of Berea, Kentucky include the funds, account groups and entities over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. The Berea Tourism Commission, the Berea Industrial Authority, and the Berea Municipal Projects Corporation are included in the financial statements because of these criteria.

The Berea Tourism Commission was created by Ordinance No. 7.82, which was adopted April 6, 1982. The Commission is composed of seven members appointed by the Mayor pursuant to KRS 91A.360. The Commission submits an annual request for operating funds to the Berea City Council and an annual report of the operation of the Commission during the preceding year. Effective July 1, 1997, the City is providing accounting services for the Commission.

The Berea Industrial Development Authority was created by Ordinance No. 18.86, adopted November 25, 1986, pursuant to KRS 154.50-316. The Authority was created to promote the gainful employment, business and economic development opportunities and general welfare of the citizens and residents of the City of Berea. The Authority is authorized to acquire real estate for use as manufacturing, processing and assembling sites, and to develop such sites for occupancy, use, lease or conveyance to industrial entities. The Authority is composed of six members, one of which is the Mayor. The other five members are appointed by the Mayor for four-year terms. The City Council approves the Authority's annual operating budget in conjunction with the City's annual budget authorization.

The Berea Municipal Projects Corporation was created to finance the acquisition of various public projects. This corporation is the legal entity through which the lease for the City Park is reported.

**B. Basis of Presentation**

The City's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No 34, "**Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments**" and consists of the following:

Management's discussion and analysis (required supplementary information);

- Basic Financial Statements
  - Government-wide financial statements
  - Fund financial statements
- Notes to the financial statements

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-wide Financial Statements**

The government-wide financial statements include a statement of net assets and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses.

Governmental Funds are those through which most governmental functions are financed. The governmental fund measurement focus is upon determination of financial position and budgetary control over revenues and expenditures. Proprietary Fund Types are used to account for operations that are financed and operated in a manner similar to business enterprises - where intent of the governing body is that costs of providing services are to be financed or recovered primarily through user charges.

The following funds are used by the City of Berea:

Governmental Funds

**General Fund** - The general operating fund of the City is used to account for all financial resources except those required to be accounted for in another fund. Most of the essential governmental services such as police and fire protection, community services and general administration are reported in this fund.

**Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law to be expended for specific purposes. The City maintains the following Special Revenue Funds:

**Berea Corridor Fund** - A special revenue fund established for a pass through from the state for engineering work on a project.

**Menalaus Pike Fund** - A special revenue fund established for a pass through from the state for engineering work on a project.

**Homeland Security Fund** - A special revenue fund established that received federal money to be used for police and fire services.

**Municipal Aid Fund** - A special revenue fund for the money received from the state to be used exclusively on road repair.

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Special Revenue Funds, continued**

**Tourism Fund** - A special revenue fund that received money from the hotel/motel tax and accounts for related expenditures operated by the Berea Tourism Commission.

**Industrial Development Fund** - A special revenue fund used to account for industrial development activities conducted by the Berea Industrial Development Authority.

**The Police Restricted Fund** - The Police Restricted fund was established pursuant to Kentucky Revised Statutes enabling property seized in drug related arrests to be retained or sold and the proceeds used for further drug enforcement efforts.

**CDBG – Renaissance/Chestnut Fund** – The CDBG Renaissance/Chestnut fund was established to account for monies received from the CDBG grant for the Downtown and Chestnut Street Renaissance project.

**Mayde Road Fund** – A special revenue fund established for a pass through from the state for engineering work on a project.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the acquisition or construction of capital assets. The accumulation of resources for, and the payment of, the costs of the acquisition or construction of capital assets are held in the fund until the assets are placed in service.

**Park Expansion Fund** - The Park Expansion Fund is used to account for the construction to the park financed through the general obligation public project bonds, series 2008.

**Debt Service Fund** - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term leases and debt principal, interest and related costs.

**Infrastructure Fund** - A debt service fund used to account for infrastructure improvements in the Industrial Park financed through the Kentucky Infrastructure Authority and repaid from annual payments by industries served by these improvements.

**Prospect Street Upgrade Fund** - The Prospect Street Upgrade Fund is used to account for improvements along Prospect Street including an upgrade to a drainage system, a new bridge, new sidewalks, and a shared use path.

**Proprietary Funds**

Proprietary Funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in cash flows.

Enterprise Funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the Berea Municipal Utilities, a department of the City that provides electric, water, and sewer services to the residents of the City of Berea

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

**D. Budgeting**

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

Budgeted amounts in the financial statements are as adopted by ordinance of the City and have been revised for amendments authorized during the year.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Other Accounting Policies**

Accounts receivable from customers are stated less an allowance for doubtful accounts of \$-0- in the Berea Municipal Utilities Fund.

Investments are reported at fair value. Investments of the city consist of certificates of deposits and U.S. government obligations. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Cash and cash equivalents - The City of Berea considers all cash, both restricted and unrestricted, as cash for purposes of the Statement of Cash Flows.

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

Inventory is recorded at cost.

Deferred revenues represent grant revenues received but unearned. Revenues are recognized when eligible expenditures are incurred.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Berea.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences - It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are only allowed to carry over 40 hours from one calendar year to the next. Balances in excess of 40 hours of vacation leave lapse at December 31 each year. Employees who resign, retire, or are permanently separated from employment (after one year of service) with the City shall receive payment for all of their accumulated vacation leave upon separation with the City, including any vacation leave credits accumulated during the current year of employment. Employees working 40-hour workweeks are allowed to accumulate a maximum of 1,040 hours of sick leave, and 56-hour employees are allowed to accumulate a maximum of 1,456 of sick leave. Employees who have accumulated at least 90% of the maximum amount of sick leave may request a cash conversion of the remaining sick leave hours. The conversion is calculated based on a ratio of two (2) hours of sick leave for one (1) hour of the employee's regular hourly salary. Employees who resign or retire from employment with the City may be paid for a portion of their accumulated sick leave, based on the number of years employed by the City.



**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**2. CASH AND INVESTMENTS**

Under Kentucky Revised Statute 66.480 the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. At June 30, 2009 all funds of the City were substantially insured or collateralized.

The balances for cash and cash equivalents as of June 30, 2009, are as follows:

	<b>Governmental</b>	<b>Proprietary</b>	<b>Total</b>
Carrying amount	\$ 6,962,175	\$ 11,177,490,	\$ 18,139,665
Bank balance	7,772,837	11,217,155	18,989,992
FDIC Insurance	1,500,000	750,000	2,250,000
Collateral	6,886,692	10,945,671	17,832,363

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterpart's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the government's name.

The governmental funds only invest in certificates of deposit, which are included in the cash and cash equivalent category discussed earlier.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**3. CAPITAL ASSETS**

A summary of capital asset activity during the fiscal year follows:

	Balance July 1, 2008	Additions	Deductions	June 30, 2009
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,052,134	\$ -	\$ -	\$ 4,052,134
Construction in Progress (CIP)	1,042,263	4,702,277	3,017,850	2,726,690
Capital assets that are depreciated:				
Buildings and Improvements	5,655,237	116,643	-	5,771,880
Land Improvements	677,330	-	-	677,330
Vehicles	3,434,503	63,270	117,593	3,380,180
Equipment	<u>1,822,208</u>	<u>213,473</u>	<u>5,013</u>	<u>2,030,668</u>
Totals	16,683,675	5,095,663	3,140,456	18,638,882
Infrastructure Assets	<u>2,837,020</u>	<u>3,976,839</u>	-	<u>6,813,859</u>
Total Capital Assets	<u>19,520,695</u>	<u>9,072,502</u>	<u>3,140,456</u>	<u>25,452,741</u>
Less Accumulated Depreciation:				
Buildings and Improvements	2,831,186	214,896	-	3,046,082
Land Improvements	64,947	16,933	-	81,880
Vehicles	1,969,592	231,320	117,593	2,083,319
Equipment	866,916	174,846	5,013	1,036,749
Infrastructure Assets	<u>308,620</u>	<u>211,713</u>	-	<u>520,333</u>
Totals	<u>6,041,261</u>	<u>849,708</u>	<u>122,606</u>	<u>6,768,363</u>
Depreciable capital assets, net	<u>\$ 13,479,434</u>	<u>\$ 8,222,794</u>	<u>\$ 3,017,850</u>	<u>\$ 18,684,378</u>
Business-Type Activities				
Land, Buildings and Easements	\$ 1,922,125	\$ -	\$ -	\$ 1,922,125
Electric system	9,738,268	250,444	-	9,988,712
Water system	8,219,050	197,517	-	8,416,567
Plant and sewer system	25,692,618	31,921	-	25,724,539
Vehicle and equipment	957,560	-	-	957,560
Construction in Progress	<u>1,207,896</u>	<u>2,178,533</u>	-	<u>3,386,429</u>
Total	<u>47,737,517</u>	<u>2,658,415</u>	-	<u>50,395,932</u>
Less Accumulated Depreciation	<u>12,879,066</u>	<u>1,594,133</u>	-	<u>14,473,199</u>
Capital Assets Net	<u>\$ 34,858,451</u>	<u>\$ 1,064,282</u>	<u>\$ -</u>	<u>\$ 35,922,733</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 81,607
Police	131,529
Fire	112,298
Public Works	323,970
Codes enforcement	9,712
Parks and recreation	143,681
Sanitation	12,744
GIS/Surveying	11,500
Tourism	<u>22,667</u>
Total Depreciation Expense	<u>\$ 849,708</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**3. CAPITAL ASSETS (CONTINUED)**

The City of Berea elected to not report major infrastructure retroactively as permitted by GASB 34. Capital assets acquired are recorded at cost or estimated cost. Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

Infrastructure	5-40 years
Buildings	25-40 years
Improvements	10-40 years
Vehicles, furniture and equipment	5-20 years

**4. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT**

A summary of changes in business-type activities long-term debt follows:

	June 30, 2008	Additions	Deletions	June 30, 2009
Revenue bonds payable	\$ 18,025,000	\$ -	\$ 775,000	\$ 17,250,000
KIA WWTP loan payable	4,545,787	-	231,703	4,314,084
KIA WTP loan payable	<u>-</u>	<u>1,420,077</u>	<u>-</u>	<u>1,420,077</u>
Total debt outstanding	<u>\$ 22,570,787</u>	<u>\$ 1,420,077</u>	<u>\$ 1,006,703</u>	<u>\$ 22,984,161</u>

**BONDS PAYABLE**

On January 1, 2005, the City of Berea issued \$16,445,000 of Series 2005-A Combined Utilities Revenue Bonds and \$3,740,000 of Series 2005-B Combined Utilities Revenue Bonds to fund the purchase of the Berea College water and electric utilities. The Series 2005-A Bonds are a variable rate debt, with interest rates from 3-4.375%, with the first interest payment due January 1, 2007 and the first principal payment due January 1, 2011. The bonds mature on January 1, 2025. The Series 2005-B Bonds are at a fixed rate of 3.9%, with the first principal and interest payment due January 1, 2006. The bonds mature January 1, 2010. Interest on both bond issues is paid semiannually, with principal due on January 1 of each year.

	June 30, 2008	Additions	Deletions	June 30, 2009
Series 2005-A Revenue Bonds	\$ 16,445,000	\$ -	\$ -	\$ 16,445,000
Series 2005-B Revenue Bonds	<u>1,580,000</u>	<u>-</u>	<u>775,000</u>	<u>805,000</u>
Total bonds outstanding	<u>\$ 18,025,000</u>	<u>\$ -</u>	<u>\$ 775,000</u>	<u>\$ 17,250,000</u>

The following are the principal and interest maturities for the life of the bonds:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	805,000	685,422	1,490,422
2011	835,000	654,027	1,489,027
2012	865,000	628,977	1,493,977
2013	890,000	599,783	1,489,783
2014	925,000	568,633	1,493,633
2015-19	5,180,000	2,277,514	7,457,514
2020-24	6,320,000	1,135,728	7,455,728
2025	<u>1,430,000</u>	<u>62,563</u>	<u>1,492,563</u>
Total	<u>\$17,250,000</u>	<u>\$ 6,612,647</u>	<u>\$23,862,647</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**4. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT (CONTINUED)**

The general bond ordinance requires the City of Berea to maintain the following funds and accounts related to the bond issuance:

Depreciation Fund – The depreciation fund shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. The City began making monthly payments of \$100,000 to the depreciation account on July 1, 2005. There are no required monthly deposits or balance to maintain in the depreciation fund account. As of June 30, 2009, the depreciation fund had a balance of \$1,283,561.

Debt Service Fund – The debt service fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. These monthly transfers are to be made until the fund reaches a balance of \$1,494,887. As of June 30, 2009, the debt service fund had a balance of \$362,313.

**LOANS PAYABLE**

On July 1, 2004, the City of Berea entered into a loan assistance agreement with the Kentucky Infrastructure Authority for a federally assisted Wastewater Revolving Loan Fund Program Fund A loan not to exceed \$5,000,000 for the improvement of the wastewater system. As of June 30, 2009, the City had a balance of \$4,775,190 on the loan. Interest payments began within six months from the first draw of funds at a rate of 1%, and full principal and interest payments commenced within one year of initiation of operation. The loan calls for a \$250,000 repairs and maintenance reserve.

	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
2010	234,026	42,557	8,511	285,094
2011	236,372	40,211	8,042	284,625
2012	238,742	37,841	7,568	284,151
2013	241,135	35,448	7,090	283,673
2014	243,553	33,031	6,606	283,190
2015-19	1,254,856	128,043	25,624	1,408,523
2020-24	1,319,079	63,856	12,756	1,395,691
2025-26	<u>546,321</u>	<u>6,844</u>	<u>1,370</u>	<u>554,535</u>
Total	<u>\$ 4,314,084</u>	<u>\$ 387,831</u>	<u>\$ 77,567</u>	<u>\$ 4,779,482</u>

On January 1, 2009, the City of Berea entered into a loan assistance agreement with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. The loan is not to exceed \$5,000,000. As of June 30, 2009 the City had received \$1,420,077 in loan proceeds. Interest payments begin December 2009. Principal payments begin once the project is complete. The loan calls for a \$250,000 repairs and maintenance reserve.

**5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT**

A summary of changes in governmental long-term debt follows:

	June 30, 2008	Additions	Deletions	June 30, 2009
Leases payable	\$ 16,066	\$ -	\$ 7,790	\$ 8,276
Park bond payable -Series 1999	1,035,000	-	185,000	850,000
Park expansion - Series 2008	3,375,000	-	415,000	2,960,000
Note payable - Industrial park	972,862	-	300,000	672,862
Accrued leave	<u>437,221</u>	<u>18,933</u>	<u>-</u>	<u>456,154</u>
Total debt outstanding	<u>\$ 5,836,149</u>	<u>\$ 18,933</u>	<u>\$ 907,790</u>	<u>\$ 4,947,292</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)**

**LEASES PAYABLE**

The City entered into the following leases, which are reported in the governmental activities long-term debt. Following is a general description of the principal and interest requirements of each lease:

- 1) **Office Equipment Rental Company-** The City entered into a capital lease for a digital copier beginning November 3, 2004. The term of the lease is 60 months with monthly payments of \$364. The outstanding balance due is \$1,456 at June 30, 2009 to be paid out December 2009.
- 2) **Office Equipment Rental Company-** The City entered into a capital lease for a copier for the police department on March 1, 2008. The term of the lease is 36 months with monthly payments of \$341. The outstanding balance due is \$6,820 at June 30, 2009 to be paid out March 2011.

**PARK BOND PAYABLE**

Capital Leases. The government has executed a lease to finance improvements to the Berea City Park. The ground lease has been entered into by the City for the period from October 15, 1992, through October 15, 2012, unless earlier terminated by the City upon exercise of its option to purchase the Project in accordance with the provisions of the Lease. The lessor, Kentucky Municipal Finance Corporation, and the City have agreed that the Ground Lease will not be terminated for any reason other than exercise by the City of its option under the Lease to purchase the Project or a taking of the Project by condemnation or eminent domain. The lessor has assigned its rights, title and interests under the Lease and in the Project to the Trustee, People's Bank & Trust Company of Madison County, Berea, Kentucky, as security for Certificates of Participation, in the amount of \$2,600,000, that financed improvements to the park.

On February 2, 1999, the City issued \$2,435,000 in Series 1999 Bonds to advance refund \$2,125,000 of outstanding 1992 Series bonds. The net proceeds of \$2,388,350 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the debt service account and escrow account. The debt service deposit was \$11,635. The escrow balance of \$2,376,715 was used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series bonds. As a result, the 1992 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt.

The City advance refunded the 1992 Series bonds to reduce its total debt service payments by \$171,095 and to obtain an economic gain of \$152,265.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

<b>Year Ending June 30</b>	
2010	230,750
2011	232,345
2012	228,633
2013	<u>229,613</u>
Total minimum lease payments	921,341
Less interest portion	<u>(71,341)</u>
Net present value	<u><u>\$850,000</u></u>

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

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**5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)**

**PARK EXPANSION BOND PAYABLE**

On April 8 2008, the City sold \$3,375,000 in General Obligation Public Project Bonds, Series 2008. The net proceeds of \$3,305,000 (after payment of underwriting fees, insurance and other issuance costs) will fund the park expansion project. The schedule below shows the City's total net general obligation debt service.

<b>Year Ending June 30</b>	
2010	496,110
2011	501,060
2012	500,278
2013	498,573
2014	259,168
2015-18	<u>1,044,138</u>
Total minimum lease payments	3,299,327
Less interest portion	<u>(339,327)</u>
Net present value	<u>\$2,960,000</u>

**NOTE PAYABLE – NEW INDUSTRIAL PARK**

On June 5, 2008, the City of Berea renewed its note payable with Peoples Bank and Trust Company of Madison County that was originally set to mature June 8, 2008. The renewed note is to borrow \$972,862, the note accrues interest at 4.5%, and the note is payable in one payment of all outstanding principal plus all accrued unpaid interest on June 5, 2010. The City pays regular quarterly payments of all accrued unpaid interest. The City made principal payments of \$300,000 during the year ended June 30, 2009. At June 30, 2009 the balance outstanding on the note was \$672,862.

**ACCRUED LIABILITIES – COMPENSATED ABSENCES**

As discussed in Note 1, Other Accounting Policies, the City allows employees to accumulate earned but unused holiday and sick pay benefits. As of June 30, 2009, the total liability for compensated absences was \$456,154.

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**6. RETIREMENT PLAN**

**CERS**

The City of Berea is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2009, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2009, participating employers contributed 13.50% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

The required contribution (employee and employer) and the actual percentage contributed for the City for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 878,800	100%
2008	\$ 884,500	100%
2007	\$ 744,500	100%

**457(b)**

In addition, the City of Berea offers the 457(b) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 32 participants in the plan. Employees can contribute 100% of includible compensation up to \$16,500 and an additional \$5,500 if 50 or older. During the fiscal year employees contributed \$77,739 to the plan.

**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**6. RETIREMENT PLAN (CONTINUED)**

**ICMA**

The City of Berea also provides pension benefits to its full-time employees through a defined contribution plan in conjunction with the employees of the City of Berea. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to join the plan after six (6) months of employment. As established by the City Council, the plan is funded by a contribution from the City into each individual's account from the City's profits based on the employee's contribution. Contribution rates range from 3% to 8.94% for the employer, and the employees' contribution rates ranged from 0% to 5%. In addition, each participant may contribute an amount not to exceed nineteen (19) percent of his or her yearly salary.

The plan is a prototype 401(k) plan and trust, and has an Effective Date of July 1, 1984. The plan's assets are held by the ICMA Retirement Trust Corporation. Vesting occurs at a rate of twenty (20) percent at the completion of each full year of service, with full vesting occurring after five (5) complete years of service.

The City of Berea had a total of two employees participating in the ICMA plan. During the fiscal year, employees contributed \$15,600 to the plan. All required contributions were paid at year end or within thirty (30) days thereafter.

**7. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2009 were levied in November 2008 on the assessed property located in the City of Berea as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<b>Description</b>	<b>Date Per K.R.S. 134.020</b>
1. Due date for payment	January 3
2. Face value payment period	January 3 – January 31
3. Past due date, 10% penalty	January 31
4. Interest charge	8.25% per annum Jan 31

Vehicle taxes are collected by the County Clerk of Madison County and are due and collected in the birth month of the vehicle's licensee.

**8. CONSTRUCTION IN PROGRESS**

The City is in progress on the following business-type projects:

Description of project	June 30, 2009
Water Plant	\$ 2,858,345
Transmission System Upgrade	255,330
US N Trunk Sewer Extension	119,970
Terrill Branch Extension	104,866
Meter Shop Upgrade	1,338
Berea/Richmond Water Line	3,410
Storage Yard Improvements	22,342
Reservoir project	<u>20,828</u>
Total construction in progress	<u>\$ 3,386,429</u>



**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2009**

**8. CONSTRUCTION IN PROGRESS (CONTINUED)**

The City is in progress on the following governmental projects:

Description of project	June 30, 2009
Park Improvement Project	\$ 1,788,196
Parks Planning	291,051
1016 Sidewalk Plan	151,513
Purchase of Fire Engine	150,000
US 25 Plan	107,519
Bratcher Lane	81,509
Shared Use Path	80,127
Rebuilding of McKinney, Brenwood	38,340
Purchase of Server	19,558
Pinnacle Street / Locker Court	9,793
Parker Seal Study	9,084
Total construction in progress	<u>\$ 2,726,690</u>

**9. NON EXCHANGE TRANSACTIONS**

During the year, the Berea Municipal Utilities received non-cash contributions from developers in the form of sewer and water lines. The estimated value of these lines totaled \$100,650 and was added to the Commission's capital assets. Also, during the year, the BMU received connection fees totaling \$47,174 from customers connecting to the system, as well as \$137,563 from customers for reimbursements consisting mainly of trench fees relating to the installation of underground electric utilities. Both developer contributions and connection fees are accounted for as nonoperating revenue.

**10. RISK MANAGEMENT**

The City of Berea is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the city also carries commercial insurance for all other risks of loss such as worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**11. DEFICIT FUND BALANCE**

At June 30, 2009, the Prospect Street Upgrade Fund had a deficit fund balance of \$69,902 due to insufficient funds to cover engineering costs. Subsequent to year end transfers were made from the General Fund to eliminate the deficit.

**12. COMMITMENTS AND CONTINGENCIES**

Various claims and lawsuits are pending against the City. In the opinion of the City's management, the potential loss on the actions will not be significant to the City's financial statements.

**13. SUBSEQUENT EVENTS**

The City has evaluated and considered the need to recognize or disclose subsequent events through October 9, 2009, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2009, have not been evaluated by the City.

**SUPPLEMENTAL INFORMATION**

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>MUNICIPAL TAXATION</b>				
General property taxes	\$ 520,000	\$ 520,000	\$ 557,682	\$ 37,682
State assessment property taxes	5,000	5,000	16,262	11,262
In lieu of property tax	8,000	8,000	11,035	3,035
Delinquent property taxes	10,000	10,000	3,842	(6,158)
Bank deposit taxes	52,000	55,940	58,295	2,355
Motor vehicle taxes	15,000	15,000	38,704	23,704
Penalties and interest	2,000	2,000	8,065	6,065
	<u>612,000</u>	<u>615,940</u>	<u>693,885</u>	<u>77,945</u>
<b>LICENSES, PERMITS, BILLINGS</b>				
Occupational license fees				
Insurance	500,000	500,000	745,488	245,488
Employee withholding	4,500,000	4,400,000	4,575,890	175,890
Net profits	350,000	350,000	346,306	(3,694)
Individual	13,000	13,000	21,469	8,469
Business	1,200	1,200	1,320	120
Regulated licenses	12,700	12,700	9,305	(3,395)
Penalty and interest	10,000	10,000	388	(9,612)
Utility franchise fees	855,400	855,000	984,015	129,015
Building permits	50,000	50,000	27,770	(22,230)
Electric permits	50,000	50,000	46,961	(3,039)
	<u>6,342,300</u>	<u>6,241,900</u>	<u>6,758,912</u>	<u>517,012</u>
<b>CHARGES FOR SERVICE</b>				
Police - special services	8,500	8,500	8,475	(25)
Court costs & fees	43,000	43,000	53,302	10,302
Accident reports	1,000	1,000	1,486	486
Burning permits	200	200	81	(119)
Street cut permits	1,500	1,500	2,617	1,117
Codes - plat review fee	8,000	8,000	5,816	(2,184)
GIS mapping fees	1,000	1,000	878	(122)
Demolition cleanup	2,000	2,000	1,403	(597)
Parks concessions	15,000	15,000	18,803	3,803
Pool concessions	30,000	30,000	25,803	(4,197)
Swimming pool fees	65,000	65,000	62,465	(2,535)
Softball fees	1,400	1,400	900	(500)
Miscellaneous	2,500	2,500	15,075	12,575
	<u>179,100</u>	<u>179,100</u>	<u>197,104</u>	<u>18,004</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>FINES AND FORFEITS</b>				
Parking fines	\$ 5,000	\$ 5,000	\$ 4,195	\$ (805)
 <b>INTERGOVERNMENTAL REVENUES</b>				
County school-police contract	70,000	70,000	73,029	3,029
Madison County grants	55,500	55,500	55,500	-
Other grants	12,500	12,500	20,412	7,912
Police incentive pay	89,900	89,900	101,768	11,868
Fire incentive pay	55,000	55,000	64,268	9,268
	<u>282,900</u>	<u>282,900</u>	<u>314,977</u>	<u>32,077</u>
 <b>OTHER REVENUE</b>				
Rental income	57,700	57,700	70,046	12,346
Interest income	228,000	228,000	164,965	(63,035)
Insurance proceeds	-	60,000	101,354	41,354
Miscellaneous	5,925	5,925	12,157	6,232
	<u>291,625</u>	<u>351,625</u>	<u>348,522</u>	<u>(3,103)</u>
 <b>TOTAL REVENUE</b>	 <u>\$ 7,712,925</u>	 <u>\$ 7,676,465</u>	 <u>\$ 8,317,595</u>	 <u>\$ 641,130</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>ADMINISTRATION</b>				
Administration				
Personnel	\$ 279,980	\$ 282,990	\$ 264,302	\$ (18,688)
Commodities	22,700	22,700	18,101	(4,599)
Contractual	50,550	45,550	33,062	(12,488)
City Council				
Personnel	56,840	56,840	49,735	(7,105)
Contractual	170,800	234,365	208,735	(25,630)
Finance Office				
Personnel	252,200	252,200	205,877	(46,323)
Commodities	40,600	40,600	23,807	(16,793)
Contractual	107,700	147,600	128,931	(18,669)
Building Maintenance				
Personnel	34,267	34,267	33,521	(746)
Commodities	20,700	20,700	21,835	1,135
Contractual	44,200	53,300	51,719	(1,581)
Building Maintenance-Annex				
Personnel	16,800	16,800	16,943	143
Contractual	33,800	33,800	29,288	(4,512)
General Services				
Contractual	596,900	591,380	476,796	(114,584)
Total Administration	<u>1,728,037</u>	<u>1,833,092</u>	<u>1,562,652</u>	<u>(270,440)</u>
<b>POLICE</b>				
Administration				
Personnel	404,024	404,024	355,627	(48,397)
Commodities	15,700	15,700	11,460	(4,240)
Contractual	147,857	147,857	104,266	(43,591)
Police Patrol				
Personnel	1,545,635	1,545,635	1,436,435	(109,200)
Commodities	136,825	136,825	101,564	(35,261)
Contractual	29,500	33,140	25,544	(7,596)
Police Training				
Commodities	8,800	8,800	7,522	(1,278)
Contractual	10,500	10,500	9,561	(939)
Total Police Department	<u>2,298,841</u>	<u>2,302,481</u>	<u>2,051,979</u>	<u>(250,502)</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>FIRE</b>				
Administration				
Personnel	\$ 86,251	\$ 86,251	\$ 82,695	\$ (3,556)
Commodities	4,700	4,700	2,832	(1,868)
Contractual	4,250	4,250	(308)	(4,558)
Fire Suppression				
Personnel	1,002,112	1,029,327	972,493	(56,834)
Commodities	56,400	56,400	45,915	(10,485)
Contractual	134,350	134,350	74,610	(59,740)
Fire Training				
Commodities	9,800	9,800	3,996	(5,804)
Contractual	<u>8,000</u>	<u>8,000</u>	<u>4,166</u>	<u>(3,834)</u>
Total Fire Department	<u>1,305,863</u>	<u>1,333,078</u>	<u>1,186,399</u>	<u>(146,679)</u>
<b>STREETS</b>				
Personnel	681,724	720,724	714,003	(6,721)
Commodities	263,650	328,439	291,472	(36,967)
Contractual services	<u>176,200</u>	<u>213,600</u>	<u>183,616</u>	<u>(29,984)</u>
Total Street Department	<u>1,121,574</u>	<u>1,262,763</u>	<u>1,189,091</u>	<u>(73,672)</u>
<b>CODES ENFORCEMENT</b>				
Personnel	243,898	245,190	231,807	(13,383)
Commodities	10,700	11,300	9,414	(1,886)
Contractual	<u>67,650</u>	<u>77,800</u>	<u>65,544</u>	<u>(12,256)</u>
Total Codes Enforcement	<u>322,248</u>	<u>334,290</u>	<u>306,765</u>	<u>(27,525)</u>
<b>PARKS AND RECREATION</b>				
Parks and Recreation				
Personnel	236,525	243,522	203,452	(40,070)
Commodities	103,850	112,750	78,472	(34,278)
Contractual services	104,400	106,900	109,501	2,601
Pool				
Personnel	109,803	116,300	77,706	(38,594)
Commodities	54,500	54,500	52,736	(1,764)
Contractual services	50,200	50,200	22,075	(28,125)
Intergenerational Center				
Contractual services	<u>180,200</u>	<u>180,200</u>	<u>92,293</u>	<u>(87,907)</u>
Total Parks and Recreation	<u>839,478</u>	<u>864,372</u>	<u>636,235</u>	<u>(228,137)</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>GIS/SURVEYING</b>				
GIS/Land Surveying				
Personnel	100,997	103,112	99,258	(3,854)
Commodities	8,150	8,150	4,642	(3,508)
Contractual services	<u>25,200</u>	<u>25,200</u>	<u>9,584</u>	<u>(15,616)</u>
Total GIS/Surveying	<u>134,347</u>	<u>136,462</u>	<u>113,484</u>	<u>(22,978)</u>
<b>BUSINESS DEVELOPMENT</b>				
Business Development				
Personnel	60,900	60,900	59,227	(1,673)
Commodities	6,900	6,900	2,797	(4,103)
Contractual services	<u>9,800</u>	<u>9,800</u>	<u>1,577</u>	<u>(8,223)</u>
Total Business Development	<u>77,600</u>	<u>77,600</u>	<u>63,601</u>	<u>(13,999)</u>
<b>CAPITAL OUTLAY</b>				
Administration	183,700	203,700	19,558	(184,142)
Police	161,400	168,400	68,360	(100,040)
Fire	246,500	246,500	185,398	(61,102)
Streets	234,000	116,347	82,643	(33,704)
Codes enforcement	10,500	4,500	-	(4,500)
Parks and recreation	55,000	50,930	14,404	(36,526)
GIS/Surveying	<u>39,800</u>	<u>39,800</u>	<u>22,683</u>	<u>(17,117)</u>
Total Capital Outlay	<u>930,900</u>	<u>830,177</u>	<u>393,046</u>	<u>(437,131)</u>
<b>DEBT SERVICE</b>	<u>-</u>	<u>-</u>	<u>7,790</u>	<u>7,790</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 8,758,888</u>	<u>\$ 8,974,315</u>	<u>\$ 7,511,042</u>	<u>\$ (1,463,273)</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**PROPRIETARY FUND**  
**for the year ended June 30, 2009**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>BEREA MUNICIPAL UTILITIES</b>				
Administration				
Personnel	\$ 598,409	\$ 598,409	\$ 540,706	\$ (57,703)
Commodities	43,300	199,300	147,993	(51,307)
Contractual	<u>365,300</u>	<u>387,800</u>	<u>375,220</u>	<u>(12,580)</u>
	<u>1,007,009</u>	<u>1,185,509</u>	<u>1,063,919</u>	<u>(121,590)</u>
Electric				
Personnel	500,149	516,649	491,803	(24,846)
Commodities	6,593,300	7,007,700	6,901,113	(106,587)
Contractual	<u>182,500</u>	<u>208,000</u>	<u>156,322</u>	<u>(51,678)</u>
	<u>7,275,949</u>	<u>7,732,349</u>	<u>7,549,238</u>	<u>(183,111)</u>
Water				
Personnel	487,547	502,547	407,760	(94,787)
Commodities	173,800	178,800	140,128	(38,672)
Contractual	<u>482,950</u>	<u>544,950</u>	<u>513,048</u>	<u>(31,902)</u>
	<u>1,144,297</u>	<u>1,226,297</u>	<u>1,060,936</u>	<u>(165,361)</u>
Sewer				
Personnel	434,049	434,049	419,370	(14,679)
Commodities	71,500	77,100	67,211	(9,889)
Contractual	<u>311,700</u>	<u>314,800</u>	<u>303,636</u>	<u>(11,164)</u>
	<u>817,249</u>	<u>825,949</u>	<u>790,217</u>	<u>(35,732)</u>
Total Expenditures	<u>\$ 10,244,504</u>	<u>\$ 10,970,104</u>	<u>\$ 10,464,310</u>	<u>\$ (505,794)</u>



**CITY OF BEREA, KENTUCKY  
COMBINING BALANCE SHEET  
ALL NONMAJOR FUNDS  
June 30, 2009**

	<b>Municipal Road Aid Fund</b>	<b>Tourism Fund</b>	<b>Menelaus Pike Fund</b>	<b>Berea Corridor Fund</b>	<b>Police Restricted Fund</b>	<b>Infrastructure Assessment Fund</b>	<b>Renaissance /Chestnut St. Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Prospect St. Upgrade Fund</b>	<b>2009 Total</b>	<b>2008 Total</b>
<b>ASSETS</b>												
Cash	\$ 386,479	\$ 580,105	\$ 166	\$ 68,894	\$ 30,893	\$ 32,582	\$ 34,061	\$ 21	\$ 5,965	\$ 82	\$ 1,139,248	\$ 1,265,332
Accounts receivable	1,580	156,057	110,595	-	-	-	-	-	-	279,935	548,167	435,436
Interest receivable	-	2,576	-	-	-	-	-	-	-	-	2,576	7,290
Due from other fund	854	-	-	-	438	-	46,050	-	330,405	-	377,747	2,035,295
<b>Total assets</b>	<b>\$ 388,913</b>	<b>\$ 738,738</b>	<b>\$110,761</b>	<b>\$ 68,894</b>	<b>\$ 31,331</b>	<b>\$ 32,582</b>	<b>\$ 80,111</b>	<b>\$ 21</b>	<b>\$ 336,370</b>	<b>\$ 280,017</b>	<b>\$ 2,067,738</b>	<b>\$ 3,743,353</b>
<b>LIABILITIES AND FUND BALANCE</b>												
Liabilities												
Accounts payable	\$ -	\$ 25,754	\$110,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,343	\$ 349,919	\$ 493,611	\$ 471,530
Due to other fund	-	486,431	-	-	-	-	-	-	-	-	486,431	1,889,487
<b>Total liabilities</b>	<b>-</b>	<b>512,185</b>	<b>110,595</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,343</b>	<b>349,919</b>	<b>980,042</b>	<b>2,361,017</b>
<b>Fund balance</b>	<b>388,913</b>	<b>226,553</b>	<b>166</b>	<b>68,894</b>	<b>31,331</b>	<b>32,582</b>	<b>80,111</b>	<b>21</b>	<b>329,027</b>	<b>(69,902)</b>	<b>1,087,696</b>	<b>1,382,336</b>
<b>Total liabilities and fund balances</b>	<b>\$ 388,913</b>	<b>\$ 738,738</b>	<b>\$110,761</b>	<b>\$ 68,894</b>	<b>\$ 31,331</b>	<b>\$ 32,582</b>	<b>\$ 80,111</b>	<b>\$ 21</b>	<b>\$ 336,370</b>	<b>\$ 280,017</b>	<b>\$ 2,067,738</b>	<b>\$ 3,743,353</b>

**CITY OF BEREA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2009**

	Municipal Road Aid Fund	Tourism Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Infrastructure Renaissance Assessment /Chestnut St. Fund	Debt Service Fund	Capital Projects Fund	Prospect St. Upgrade Fund	2009 Total	2008 Total
<b>REVENUES</b>											
Municipal Taxation	\$ -	\$ 927,308	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 927,308	\$ 918,000
Intergovernmental revenues	175,395	64,312	-	81,372	4,318	-	-	-	430,264	755,661	1,179,159
Other revenues	<u>1,282</u>	<u>6,645</u>	<u>21</u>	<u>-</u>	<u>78</u>	<u>89</u>	<u>310</u>	<u>-</u>	<u>94</u>	<u>8,623</u>	<u>108,875</u>
Total revenues	<u>176,677</u>	<u>998,265</u>	<u>21</u>	<u>81,372</u>	<u>4,396</u>	<u>89</u>	<u>310</u>	<u>-</u>	<u>430,368</u>	<u>1,691,592</u>	<u>2,206,034</u>
<b>EXPENDITURES</b>											
Current											
General administration	-	-	-	-	-	-	-	35	-	35	13,491
Police department	-	-	-	-	220	-	-	53,889	-	54,109	1,780
Fire department	-	-	-	-	-	-	-	-	-	-	-
Street department	211,835	-	3,321	-	-	-	-	16,107	-	231,263	152,824
Parks and recreation	-	-	-	-	-	-	-	2,550	-	2,550	25,831
Tourism	-	641,695	-	-	-	-	-	-	-	641,695	578,284
Industrial Development	-	-	-	-	-	-	-	-	-	-	34,295
State Contracts	-	-	-	73,137	-	-	-	-	538,070	611,207	184,522
Capital outlay	-	-	-	-	-	-	-	465,013	-	465,013	1,636,595
Debt service	-	-	-	-	-	-	-	496,909	-	496,909	605,395
Total expenditures	<u>211,835</u>	<u>641,695</u>	<u>3,321</u>	<u>73,137</u>	<u>220</u>	<u>-</u>	<u>-</u>	<u>496,909</u>	<u>537,594</u>	<u>2,502,781</u>	<u>3,233,017</u>
Excess revenues over (under) expenditures before other sources (uses)	(35,158)	356,570	(3,300)	8,235	4,176	89	310	(496,909)	(537,500)	(107,702)	(1,026,983)
<b>Other financing sources</b>											
Transfers from other funds	-	(167,005)	300	-	-	-	(100,000)	496,909	520,000	37,800	788,004
<b>Excess revenues and other sources over (under) expenditures</b>	(35,158)	189,565	(3,000)	8,235	4,176	89	(99,690)	-	(17,500)	(69,902)	170,344
Fund balances, July 1, 2008	<u>424,071</u>	<u>36,988</u>	<u>3,166</u>	<u>60,659</u>	<u>27,155</u>	<u>32,493</u>	<u>179,801</u>	<u>21</u>	<u>346,527</u>	<u>-</u>	<u>1,110,881</u>
<b>FUND BALANCES- JUNE 30, 2009</b>	<u>\$ 388,913</u>	<u>\$ 226,553</u>	<u>\$ 166</u>	<u>\$ 68,894</u>	<u>\$ 31,331</u>	<u>\$ 32,582</u>	<u>\$ 80,111</u>	<u>\$ 21</u>	<u>\$ 329,027</u>	<u>\$ (69,902)</u>	<u>\$ 1,087,696</u>

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

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Mayor and the City Council  
City of Berea  
Berea, Kentucky

We have audited the financial statements financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea (the "City") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 9, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We believe that the following deficiency is a significant deficiency.

*A significant deficiency in internal control exists in the City's financial statement close process of preparing its year-end financial statements. During the course of the audit there were adjustments proposed and agreed to by the City that if not made would have resulted in a material misstatement to the financial statements.*

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 City'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. However, we do not believe the significant deficiency described above to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, 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 the City Council, management, and the appropriate grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
October 9, 2009

**CITY OF BEREA, KENTUCKY  
INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Mayor and the Board of Commissioners  
City of Berea  
Berea, Kentucky

Compliance

We have audited the compliance of the City of Berea, with the types of compliance requirements described in the **U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Berea's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Berea's management. Our responsibility is to express an opinion on City of Berea's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and OMB Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Berea's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Berea's compliance with those requirements.

In our opinion, the City of Berea complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Berea is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Berea's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Berea's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

**CITY OF BEREA, KENTUCKY  
INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (continued)**

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of management and appropriate federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Ray, Foley, Hensley & Company*

Ray, Foley, Hensley & Company, PLLC  
October 9, 2009

**CITY OF BERA, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2009**

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<b>GRANTOR/PROGRAM TITLE</b>	<b>Federal CFDA Number</b>	<b>Pass/Through Contract Number</b>	<b>Grant Contract Period</b>	<b>Expenditures</b>
Office of Water, Environmental Protection Agency Capitalization Grants for Clean Water St. Revolving Funds	66.468		07/01/08-06/30/09	\$ 1,377,671 *
Federal Highway Administration, Highway Planning and Construction, Pedestrian Access Improvements	20.205		07/01/08-06/30/09	\$ 430,264 *
Nat'l Hwy Traffic Safety Admin, Dept. of Transportation State and Community Highway Safety	20.600		07/01/08-06/30/09	<u>\$ 17,867</u>
Total				<u>\$ 1,825,802</u>

**\*Denotes Major Program**

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Berea, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**CITY OF BEREA, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended June 30, 2009**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified \_\_Yes XNo

Significant deficiencies identified that are not considered to be material weaknesses XYes \_\_No

Non-compliance material to financial statements noted \_\_Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified \_\_Yes XNo

Significant deficiencies identified that are not considered to be material weaknesses \_\_Yes XNone reported

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

\_\_Yes XNo

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds
20.205	Highway Planning and Construction Pedestrian Access Improvements

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?

\_\_Yes XNo

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

Significant deficiency in internal control over financial reporting related to adjustments.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE