

CITY OF BERA
Berea, Kentucky

FINANCIAL STATEMENTS
June 30, 2011

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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, 2011. Please read the following in conjunction with the auditors' report on page 11 and the City's financial statements, which begin to appear on page 13.

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. The financial statements also include notes that explain in more detail some of the information in the financial statements.

The City's financial statements present two kinds of statements, each with a different snapshot of the City's finances. The focus of these statements 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 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, and sewer.

FUND FINANCIAL STATEMENTS

The fund financial statement presentation focuses now on the City’s funds. They 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 1 followed by an explanation of the results. Changes in Net Assets are presented in Table 2, which is also followed by an explanation of the results.

Table 1

	Governmental Activities	Business-type Activities	2011 Total Primary Government	2010 Total Primary Government
Current Assets	\$ 8,201,307	\$ 9,004,029	\$ 17,205,336	\$ 17,455,705
Capital Assets	18,901,280	42,862,168	61,763,448	61,854,094
Other Noncurrent Assets	46,141	2,779,814	2,825,955	3,483,525
Total Assets	<u>27,148,728</u>	<u>54,646,011</u>	<u>81,794,739</u>	<u>82,793,324</u>
Long-Term Liabilities	2,401,058	23,179,366	25,580,424	23,027,023
Current Liabilities	1,712,406	3,668,273	5,380,679	10,193,341
Total Liabilities	<u>4,113,464</u>	<u>26,847,639</u>	<u>30,961,103</u>	<u>33,220,364</u>
Net Assets:				
Invested in Capital Assets				
Net of Related Debt	16,104,282	18,521,710	34,625,992	32,832,813
Restricted	207,517	1,791,816	1,999,333	2,724,276
Unrestricted	6,723,465	7,484,846	14,208,311	14,015,871
Total Net Assets	<u>\$ 23,035,264</u>	<u>\$ 27,798,372</u>	<u>\$ 50,833,636</u>	<u>\$ 49,572,960</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the City of Berea exceeded liabilities by \$50,833,636. The City's total assets decreased by \$998,585, due mainly to depreciation of the City's equipment and infrastructure. The City's liabilities decreased by \$2,259,261 as a result of principal payments on the City's bonds and notes. This resulted in an overall increase in net assets of \$1,260,676. However, the largest portion of the increase reflects the City's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. Consequently, these assets are not available for future spending. Although the investments in capital assets are reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources. An additional \$1,999,333 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$14,208,311 is unrestricted.

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

Table 2

	Governmental Activities	Business-type Activities	2011 Total Primary Government	2010 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 164,243	\$ 14,695,857	\$ 14,860,100	\$ 13,648,138
Operating Grants & Contributions	714,277	-	714,277	673,383
Capital Grants & Contributions	38,590	144,408	182,998	1,903,895
General Revenue				
Taxes	1,665,099	-	1,665,099	1,853,598
License fees	7,537,145	-	7,537,145	6,658,716
Permits	72,358	-	72,358	49,189
Investment Earnings	86,375	101,287	187,662	296,717
Other Revenues	135,051	-	135,051	258,939
Total Revenues	10,413,138	14,941,552	25,354,690	25,342,575
<u>Program Expenses</u>				
General Government	1,399,758	-	1,399,758	1,514,458
Public Safety - Police	2,373,906	-	2,373,906	2,239,542
Public Safety - Fire	1,318,508	-	1,318,508	1,452,300
Public Works	1,927,570	-	1,927,570	1,694,915
Codes enforcement	293,113	-	293,113	263,259
Parks and Recreation	862,234	-	862,234	961,444
Sanitation	12,168	-	12,168	12,167
GIS/Surveying	140,257	-	140,257	138,188
Business Development	70,770	-	70,770	69,727
Tourism	807,937	-	807,937	773,968
Industrial Development	4,349	-	4,349	5,891
State Contracts	107,972	-	107,972	93,323
Interest on Long-term Debt	119,340	-	119,340	160,752
Utilities	-	14,408,176	14,408,176	12,889,607
Total Program Expenses	9,437,882	14,408,176	23,846,058	22,269,541
Gain/(Loss) on Sale of Property	(247,956)	-	(247,956)	263,455
Net Change in net Assets	\$ 727,300	\$ 533,376	\$ 1,260,676	\$ 3,336,489

The City's Change in Net Assets above includes depreciation expenses that are not cash expenditures of the City. These expenses are never considered as part of the City's budget process for governmental activities. Additionally, 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 are

budgeted on a full accrual basis, which includes depreciation expense but does not include debt service principal.

Governmental activities increased the City's net assets by \$727,300 compared to the prior year's increase of \$542,755. This year's increase in net assets accounting for 58% of the total growth in the net assets of the City. Key elements of this increase include:

- \$549,692 (12%) increase in occupational license fees on payroll
- \$261,009 (88%) increase in occupational license fees on net profits
- \$30,472 (26%) decrease in interest earned on CDs
- \$57,948 (less than 1%) increase in overall expenses

Business-type activities increased the City's net assets by \$533,376 compared to the prior year's increase in net assets of \$2,818,981. Key elements of this increase include:

- \$1,224,581 (9%) increase in operating revenues
- \$1,524,619 (13%) increase in operating expenses, which includes a \$335,879 increase in depreciation due to the completion of the water treatment plant
- \$78,583 (44%) decrease in interest earned on CDs
- \$1,745,636 (98%) decrease in developer contributions of utility infrastructure

GOVERNMENTAL ACTIVITIES

As noted earlier, the City of Berea uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources.

Governmental funds are accounted for using the modified accrual basis of accounting where expenditures include debt principal payments and capital outlay.

Table 3 details the change in fund balance of resulting from the fiscal year's governmental activities.

Table 3

	2011	2010
Revenues		
Taxes	\$ 1,665,099	\$ 1,668,241
Licenses and permits	7,609,503	6,707,905
Charges for Services	164,243	176,862
Fines & Forfeits	18,711	21,148
Intergovernmental	714,277	858,740
Other Revenues	202,715	354,638
Total Revenues	<u>10,374,548</u>	<u>9,787,534</u>
Expenditures		
General Government	1,325,120	1,439,793
Public Safety - Police	2,236,848	2,099,768
Public Safety - Fire	1,192,955	1,331,145
Public Works	1,608,689	1,586,463
Codes Enforcement	289,491	256,687
Parks and Recreation	616,329	596,240
GIS/Surveying	125,507	123,269
Business Development	70,499	69,727
Tourism	772,508	747,861
Industrial Development	4,349	5,891
State Contracts	107,972	93,323
Capital Outlay	968,969	1,282,207
Debt Service	910,745	1,046,177
Total Expenditures	<u>10,229,981</u>	<u>10,678,551</u>
Excess revenues over (under) before other sources (uses)	<u>144,567</u>	<u>(891,017)</u>
Other Financing Sources (Uses)		
Note proceeds	-	9,188
Proceeds from sale of assets	22,847	267,155
Transfers in (out)	-	(128,300)
Total Other Financing Sources (Uses)	<u>22,847</u>	<u>148,043</u>
Net Change in Fund Balance	<u>\$ 167,414</u>	<u>\$ (742,974)</u>

The change in fund balance has improved 123% from the prior year. This is largely due to an overall increase of \$587,014 (6%) in revenue and a \$448,570 (4%) decrease in expenditures. Key elements of these changes include:

- As mentioned previously, the increase in occupational license fees on payroll and net profits offsets the decreases in other categories of revenue such as decreased interest revenue and grant revenue in several of the City's special revenue funds.
- \$313,238 (24%) decrease in capital outlay
- \$135,432 (13%) decrease in debt service

- \$137,080 (7%) increase in police public safety due mainly to increased fuel cost, purchase of small equipment and the repair and maintenance of aging vehicles.
- \$114,673 (8%) decrease in property and general liability insurance.

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended the budget once. Budget amendments are made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; to recognize new funding amounts from external sources, such as federal and state grants; and increases in appropriations that become necessary to maintain services.

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 4 & 5).

**Table 4
General Fund Revenues
Budget to Actual**

	Budget	Actual	Variance
Taxes	\$ 649,866	\$ 706,864	\$ 56,998
Licenses, Permits & Billings	5,759,050	7,609,503	1,850,453
Charges for Services	153,525	164,243	10,718
Fines & Forfeitures	20,137	18,711	(1,426)
Intergovernmental	318,651	356,262	37,611
Other Revenue	<u>160,777</u>	<u>163,774</u>	<u>2,997</u>
Total Revenues	<u>\$ 7,062,006</u>	<u>\$ 9,019,357</u>	<u>\$ 1,957,351</u>

**Table 5
General Fund Expenditures
Budget to Actual**

	Budget	Actual	Variance
Administration	\$ 1,499,029	\$ 1,320,411	\$ (178,618)
Police	2,422,577	2,235,296	(187,281)
Fire	1,559,735	1,192,955	(366,780)
Public Works	1,406,093	1,252,322	(153,771)
Codes Enforcement	331,875	289,491	(42,384)
Parks & Recreation	802,110	611,339	(190,771)
GIS/Surveying	152,755	125,507	(27,248)
Business Development	83,939	70,499	(13,440)
Capital Outlay	1,018,311	310,139	(708,172)
Debt Service	<u>722,622</u>	<u>735,792</u>	<u>13,170</u>
Total Expenditures	<u>\$ 9,999,046</u>	<u>\$ 8,143,751</u>	<u>\$ (1,855,295)</u>

The City tends to budget for revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. As a result, the City's revenue exceeded budgeted amounts by \$1,957,351.

The City tends to budget expenditures based on realistic estimates of expenses, but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As a result, the City's expenditures were \$1,855,295 below budgeted amounts. The majority of this difference was based on capital items that were budgeted for but not purchased during the fiscal year.

CAPITAL ASSETS

The City of Berea's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$88,072,612. Major capital asset transactions during the year include:

- Completion of the water treatment plant with a total project cost of \$9.6 million over a six year period
- Completion of the City Park Expansion with a total project cost of \$2.5 million over a two year period
- Installation of a new roof for the Utility building at a total cost of \$497,124
- Design and installation of shake roof on the Russell Acton Folk Center for a total cost of \$166,142
- Installation of water and electric meters that are read electronically for a total cost of \$404,000.
- Inception of renovation to the Berea Train Depot, with cost during current year of \$343,161 which represents approximately 65% of the total contract price.

Table 6 shows summary totals for the City's capital assets.

Table 6

	Governmental Activities	Business-type Activities	2011 Total Primary Government	2010 Total Primary Government
Land, Buildings & Improvements	\$ 10,704,149	\$ 2,429,173	\$ 13,133,322	\$ 12,423,469
Construction in Progress	588,957	220,413	809,370	12,140,204
Vehicles & Equipment	6,148,220	1,167,703	7,315,923	7,026,726
Infrastructure/Utility Plant	9,831,536	56,982,461	66,813,997	53,873,254
Total Capital Assets	<u>27,272,862</u>	<u>60,799,750</u>	<u>88,072,612</u>	<u>85,463,653</u>
Less Accumulated Depreciation	(8,371,582)	(17,937,582)	(26,309,164)	(23,609,559)
Total Net Capital Assets	<u>\$ 18,901,280</u>	<u>\$ 42,862,168</u>	<u>\$ 61,763,448</u>	<u>\$ 61,854,094</u>

DEBT

The City's long term debt at June 30, 2011 totaled \$27,822,022. The City's debt decreased by \$1,825,598 (6%) during the fiscal year. Table 7 provides a summary of all of the City's outstanding indebtedness.

Table 7

	Governmental Activities	Business-type Activities	2011 Total Primary Government	2010 Total Primary Government
Leases	\$ 4,136	\$ -	\$ 4,136	\$ 8,361
Bonds Payable	2,545,000	15,610,000	18,155,000	19,635,000
Loans Payable	247,862	8,730,458	8,978,320	9,377,920
Compensated Absences	513,760	170,806	684,566	626,339
Total Debt Outstanding	<u>3,310,758</u>	<u>24,511,264</u>	<u>27,822,022</u>	<u>29,647,620</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

The economic outlook for the coming fiscal year is anticipated to be stronger than the fiscal year just completed. The City continues to rely on the collection of the occupational license fees, which is mainly generated through employment at our local manufacturing facilities. Manufacturing in Berea appears to be strong. This is evidenced by Hitachi as they partner with General Motors on the development of the Chevy Volt. But the overall world economy does present a challenge in the future planning as the staff and elected officials realize our vulnerability as we mainly rely on a single source of income that is consumer driven. Even though the occupational license fee presents a challenge our overall revenue levels are sound. The diversification of our revenue base over the past four years presents the city with a much brighter outlook. In addition to diversification the conservative budgeting approach, strict adherence to budgeted line items, and the protection of our investments remain the strength of the City’s financial future.

The budget of 2011-12 continues to support the infrastructure projects that have been carried in the City’s budget for a number of fiscal years. The difference in this fiscal year and the prior years is that projects are currently being completed or will be in construction during this fiscal year. Monies have been budgeted for the construction of Prospect Street, Menelaus Pike, the shared use path bridge and installation of new financial software, all of which will be expended in this fiscal year causing cash flow to be problematic. Combined, these three projects will require more than \$ 930,000 of General Fund dollars. Five police cars, requiring \$ 158,000 are included in the departmental capital, allowing us to be up to date with our vehicle replacement program. Sighting these expenditures as examples, the commitment to infrastructure improvements, daily operational equipment combined with maintaining adequate cash reserves demonstrates our commitment to sound financial management.

The City does remain financially sound. Cash reserves combined with anticipated revenues presents strong evidence that the City will continue to be fiscally sound going into the 2011-12 fiscal year. Just as is evident in the audit our pledge to professionalism in fiscal management will guide both the staff and the elected officials through the upcoming fiscal year.

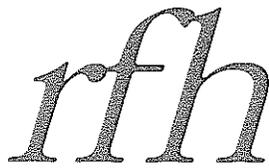
UTILITIES

The major focus of the Utilities Department has been the completion of construction at the water treatment plant. The operators and staff were able to produce the necessary water supply for the City of Berea and southern Madison County while the construction had been in progress. The

electric division continued converting the Burnamwood Subdivision and the Scaffold Cane Road circuits to the higher 7200 volt system. Efforts were put on hold for the reservoir project, but will start back now that the water plant has been completed. Automatic radio read meters continue being installed for both electric and water services, rapidly approaching the end of this project. The sewer division completed the oversight of the work on the Stoney Creek development and has accepted the system for operation and maintenance purposes.

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 Susan Meeks or Randy Stone, at 212 Chestnut Street, Berea, Kentucky 40403.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Stephen R Allen, CPA/PFS
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J. Carroll Iuby, CPA

Mayor and the City Council
City of Berea
Berea, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2011, 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 financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2011, 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.

In accordance with **Government Auditing Standards**, we have also issued our report dated September 29, 2011, on our consideration of the City of Berea, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 10 and 35 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Berea, Kentucky's financial statements as a whole. The proprietary budgetary comparison schedules, and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the financial statements. The proprietary budgetary comparison schedules and combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
September 29, 2011

CITY OF BEREA, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government			2010 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,170,377	\$ 307,435	\$ 1,477,812	\$ 2,057,399
Investments	5,527,032	6,873,896	12,400,928	12,084,703
Receivables (net) (Note 3)	1,430,061	1,879,227	3,309,288	3,288,170
Other receivable	-	5,220	5,220	5,570
Interest receivable	5,458	6,630	12,088	19,863
Internal balances	68,379	(68,379)	-	-
Total current assets	<u>8,201,307</u>	<u>9,004,029</u>	<u>17,205,336</u>	<u>17,455,705</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	1,791,816	1,791,816	2,380,527
Inventory	-	590,013	590,013	623,856
Capital assets (Note 4)				
Construction in progress	588,957	220,413	809,370	12,140,204
Land	4,043,134	-	4,043,134	4,052,134
Land improvements, net	561,584	2,095,012	2,656,596	2,220,816
Depreciable infrastructure, net	8,766,392	-	8,766,392	6,443,064
Plant and sewer system, net	-	15,472,689	15,472,689	16,079,088
Plant and electric system, net	-	8,028,368	8,028,368	8,206,035
Plant and water system, net	-	16,601,372	16,601,372	7,292,574
Depreciable buildings, property, and equipment, net	4,941,213	444,314	5,385,527	5,420,179
Other assets	46,141	397,985	444,126	479,142
Total noncurrent assets	<u>18,947,421</u>	<u>45,641,982</u>	<u>64,589,403</u>	<u>65,337,619</u>
Total assets	<u>\$ 27,148,728</u>	<u>\$ 54,646,011</u>	<u>\$ 81,794,739</u>	<u>\$ 82,793,324</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 438,679	\$ 1,656,870	\$ 2,095,549	\$ 1,918,493
Accrued payroll	181,403	27,751	209,154	519,063
Accrued taxes	-	47,317	47,317	52,078
Construction payable	-	-	-	193,885
Accrued interest payable	7,820	7,472	15,292	7,500
Customer deposits	-	533,262	533,262	655,365
Compensated absences	174,804	63,703	238,507	226,360
Current portion of long-term obligations (Notes 6 & 7)	909,700	1,331,898	2,241,598	6,620,597
Total current liabilities	<u>1,712,406</u>	<u>3,668,273</u>	<u>5,380,679</u>	<u>10,193,341</u>
Noncurrent liabilities				
Compensated absences	513,760	170,806	684,566	626,339
Noncurrent portion of long-term obligations (Notes 6 & 7)	1,887,298	23,008,560	24,895,858	22,400,684
Total noncurrent liabilities	<u>2,401,058</u>	<u>23,179,366</u>	<u>25,580,424</u>	<u>23,027,023</u>
Total liabilities	<u>4,113,464</u>	<u>26,847,639</u>	<u>30,961,103</u>	<u>33,220,364</u>
NET ASSETS				
Invested in capital assets, net of related debt	16,104,282	18,521,710	34,625,992	32,832,813
Restricted for				
Debt service	21	724,577	724,598	737,294
Depreciation	-	1,067,239	1,067,239	1,643,254
Other purposes	207,496	-	207,496	343,728
Unrestricted	6,723,465	7,484,846	14,208,311	14,015,871
Total net assets	<u>23,035,264</u>	<u>27,798,372</u>	<u>50,833,636</u>	<u>49,572,960</u>
Total liabilities and net assets	<u>\$ 27,148,728</u>	<u>\$ 54,646,011</u>	<u>\$ 81,794,739</u>	<u>\$ 82,793,324</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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2010 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,399,758	\$ -	\$ -	\$ -	\$ (1,399,758)	\$ -	\$ (1,399,758)	\$ (1,514,458)
Public safety-Police	2,373,906	46,655	198,617	-	(2,128,634)	-	(2,128,634)	(1,974,500)
Public safety-Fire	1,318,508	2	111,192	38,590	(1,168,724)	-	(1,168,724)	(1,348,171)
Public works	1,927,570	850	258,746	-	(1,667,974)	-	(1,667,974)	(1,493,951)
Codes enforcement	293,113	4,830	-	-	(288,283)	-	(288,283)	(258,540)
Parks and recreation	862,234	111,906	18,125	-	(732,203)	-	(732,203)	(830,743)
Sanitation	12,168	-	-	-	(12,168)	-	(12,168)	(12,167)
GIS/Surveying	140,257	-	-	-	(140,257)	-	(140,257)	(138,164)
Business development	70,770	-	-	-	(70,770)	-	(70,770)	(69,727)
Tourism	807,937	-	19,625	-	(788,312)	-	(788,312)	(743,165)
Industrial development	4,349	-	-	-	(4,349)	-	(4,349)	(5,891)
State contracts	107,972	-	107,972	-	-	-	-	205,897
Interest on long-term debt	119,340	-	-	-	(119,340)	-	(119,340)	(160,752)
Total governmental activities	9,437,882	164,243	714,277	38,590	(8,520,772)	-	(8,520,772)	(8,344,332)
Business type activities								
Berea Municipal Utilities	14,408,176	14,695,857	-	144,408	-	432,089	432,089	2,485,564
Total business-type activities	14,408,176	14,695,857	-	144,408	-	432,089	432,089	2,485,564
Total primary government	\$ 23,846,058	\$ 14,860,100	\$ 714,277	\$ 182,998	(8,520,772)	432,089	(8,088,683)	(5,858,768)
General revenues								
Taxes:								
Property taxes, levied for general purposes								
					706,864	-	706,864	713,194
					119,711	-	119,711	118,078
					838,524	-	838,524	836,969
License fees:								
					1,012,965	-	1,012,965	946,356
					5,181,268	-	5,181,268	4,631,576
					756,002	-	756,002	771,917
					586,910	-	586,910	308,867
Permits:								
					-	-	-	-
					31,513	-	31,513	29,481
					40,845	-	40,845	19,708
					86,375	101,287	187,662	296,717
					135,051	-	135,051	258,939
Total general revenues					9,496,028	101,287	9,597,315	8,931,802
Gain (loss) on disposal of fixed assets					(247,956)	-	(247,956)	263,455
Transfers in(out)					-	-	-	-
Change in Net Assets					727,300	533,376	1,260,676	3,336,489
Net assets-beginning					22,307,964	27,264,996	49,572,960	46,236,471
NET ASSETS-ENDING					\$ 23,035,264	\$ 27,798,372	\$ 50,833,636	\$ 49,572,960

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

**CITY OF BEREA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
ASSETS				
Cash and cash equivalents	\$ 653,857	\$ 516,520	\$ 1,170,377	\$ 1,561,399
Investments	4,674,818	852,214	5,527,032	5,300,501
Receivables, net	1,155,603	274,458	1,430,061	1,409,524
Interest receivable	5,280	178	5,458	4,763
Prepaid expenses	-	-	-	-
Due from other funds	77,616	43,864	121,480	-
Other assets	-	46,141	46,141	52,733
Total assets	\$ 6,567,174	\$ 1,733,375	\$ 8,300,549	\$ 8,328,920
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 278,217	\$ 160,462	\$ 438,679	\$ 431,413
Accrued payroll and related liabilities	177,489	3,914	181,403	446,506
Compensated absences	162,752	12,052	174,804	165,853
Due to other funds	43,864	9,237	53,101	-
Total liabilities	662,322	185,665	847,987	1,043,772
Fund balances				
Nonspendable	-	46,141	46,141	52,733
Restricted	-	207,517	207,517	343,749
Committed	13,839	238,123	251,962	-
Assigned	5,064,834	1,055,929	6,120,763	5,750,013
Unassigned	826,179	-	826,179	1,138,653
Total fund balances	5,904,852	1,547,710	7,452,562	7,285,148
Total liabilities and fund balance	\$ 6,567,174	\$ 1,733,375	\$ 8,300,549	\$ 8,328,920

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

Fund balances reported above		\$ 7,452,562	\$ 7,285,148
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,901,280	19,093,869
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.		(7,820)	-
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(3,310,758)	(4,071,053)
Net assets of governmental activities:		\$ 23,035,264	\$ 22,307,964

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, 2011

	General	Other Governmental Funds	Total Governmental Funds	2010 Totals
REVENUES				
Taxes	\$ 706,864	\$ 958,235	\$ 1,665,099	\$ 1,668,241
Licenses and permits	7,609,503	-	7,609,503	6,707,905
Charges for services	164,243	-	164,243	176,862
Fines and forfeits	18,711	-	18,711	21,148
Intergovernmental	356,262	358,015	714,277	858,740
Other revenues	163,774	38,941	202,715	354,638
Total revenues	9,019,357	1,355,191	10,374,548	9,787,534
EXPENDITURES				
Current:				
General administration	1,320,411	4,709	1,325,120	1,439,793
Public safety-police	2,235,296	1,552	2,236,848	2,099,768
Public safety-fire	1,192,955	-	1,192,955	1,331,145
Public works	1,252,322	356,367	1,608,689	1,586,463
Codes enforcement	289,491	-	289,491	256,687
Parks and recreation	611,339	4,990	616,329	596,240
GIS/Surveying	125,507	-	125,507	123,269
Business development	70,499	-	70,499	69,727
Tourism	-	772,508	772,508	747,861
Industrial development	-	4,349	4,349	5,891
State contracts	-	107,972	107,972	93,323
Capital outlay	310,139	658,830	968,969	1,282,207
Debt service	735,792	174,953	910,745	1,046,177
Total expenditures	8,143,751	2,086,230	10,229,981	10,678,551
Excess (deficiency) of revenues over expenditures	875,606	(731,039)	144,567	(891,017)
OTHER FINANCING SOURCES (USES)				
Note proceeds	-	-	-	9,188
Proceeds from sale of assets	2,847	20,000	22,847	267,155
Transfers in (out)	(500,447)	500,447	-	(128,300)
Total other financing sources and uses	(497,600)	520,447	22,847	148,043
Net change in fund balances	378,006	(210,592)	167,414	(742,974)
Fund balances-beginning, as restated	5,526,846	1,758,302	7,285,148	8,028,122
Fund balances-ending	\$ 5,904,852	\$ 1,547,710	\$ 7,452,562	\$ 7,285,148
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 167,414	\$ (742,974)
add: capital outlay expenditures capitalized			968,969	1,282,207
add: debt service expenditures			910,745	1,046,177
add: contributed capital			38,590	-
less: proceeds from sale of assets			(22,847)	-
gain (loss) on disposal of property and construction in progress			(247,956)	(3,700)
less: change in sick pay which does not require current financial resources			(38,929)	(18,677)
less: lease proceeds			-	(9,188)
less: depreciation on governmental activities assets			(929,346)	(869,015)
less: interest on long term debt			(119,340)	(142,075)
Change in net assets Governmental Activities			\$ 727,300	\$ 542,755

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

**CITY OF BEREA, KENTUCKY
BALANCE SHEET
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
June 30, 2011**

	Business Type Activities Utilities	
	2011	2010 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 307,435	\$ 496,000
Investments	6,873,896	6,784,202
Receivables (net)	1,879,227	1,878,646
Other receivables	5,220	5,570
Interest receivable	6,630	15,100
Due from (to) other funds	<u>(68,379)</u>	<u>-</u>
Total current assets	<u>9,004,029</u>	<u>9,179,518</u>
Noncurrent assets		
Restricted cash and cash equivalents	1,791,816	2,380,527
Inventory	590,013	623,856
Capital assets		
Construction in progress	220,413	9,084,312
Land, easements and buildings	2,429,173	1,922,125
Plant and electric equipment	10,711,051	10,469,040
Plant and water equipment	18,464,830	8,663,005
Plant and sewer equipment	27,806,580	27,558,249
Vehicle and equipment	1,167,703	1,100,944
Less accumulated depreciation	(17,937,582)	(16,037,450)
Other assets, (net)	<u>397,985</u>	<u>426,409</u>
Total noncurrent assets	<u>45,641,982</u>	<u>46,191,017</u>
Total assets	<u>\$ 54,646,011</u>	<u>\$ 55,370,535</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,656,870	\$ 1,487,080
Accrued payroll and related liabilities	27,751	72,558
Accrued taxes	47,317	52,078
Construction payable	-	193,885
Accrued interest payable	7,472	7,500
Customer deposits	533,262	655,365
Accrued leave	63,703	60,507
Bonds, notes, and loans payable	<u>1,331,898</u>	<u>5,971,372</u>
Total current liabilities	3,668,273	8,500,345
Noncurrent liabilities		
Compensated absences	170,806	151,508
Bonds, notes, and loans payable	<u>23,008,560</u>	<u>19,453,686</u>
Total noncurrent liabilities	<u>23,179,366</u>	<u>19,605,194</u>
Total liabilities	<u>26,847,639</u>	<u>28,105,539</u>
NET ASSETS		
Invested in capital assets, net of related debt	18,521,710	17,335,167
Restricted for debt service	724,577	737,273
Restricted for depreciation reserve	1,067,239	1,643,254
Unrestricted	<u>7,484,846</u>	<u>7,549,302</u>
Total net assets	<u>27,798,372</u>	<u>27,264,996</u>
Total liabilities and net assets	<u>\$ 54,646,011</u>	<u>\$ 55,370,535</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
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2011**

	Business Type Activities Utilities	
	2011	2010 Totals
Operating revenues		
Electric service	\$ 9,898,655	\$ 9,013,881
Water service	2,607,666	2,541,010
Sewer service	1,949,999	1,851,377
Other revenues	<u>239,537</u>	<u>65,008</u>
Total operating revenues	<u>14,695,857</u>	<u>13,471,276</u>
Operating expenses		
Administration	917,416	880,441
Electric	8,773,560	7,750,894
Water	1,069,876	1,114,482
Sewer	972,200	798,495
Depreciation and amortization	<u>1,900,132</u>	<u>1,564,253</u>
Total operating expenses	<u>13,633,184</u>	<u>12,108,565</u>
Operating income (loss)	<u>1,062,673</u>	<u>1,362,711</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	101,287	179,870
Interest expense	<u>(774,992)</u>	<u>(781,042)</u>
Total nonoperating revenue (expense)	<u>(673,705)</u>	<u>(601,172)</u>
Income before capital contributions and transfers	388,968	761,539
Capital contributions		
Electric, water and sewer connection fees	70,388	68,463
Developer contributions	32,000	1,777,636
Customer reimbursements - electric	30,065	57,796
Grant revenues	11,955	-
Transfers in (out)	<u>-</u>	<u>128,300</u>
Change in net assets	533,376	2,793,734
Total net assets-beginning, as restated	<u>27,264,996</u>	<u>24,471,262</u>
TOTAL NET ASSETS-ENDING	<u>\$ 27,798,372</u>	<u>\$ 27,264,996</u>

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

CITY OF BERE A, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2011

	Business Type Activities	
	Utilities	
	2011	2010 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 14,568,412	\$ 13,562,305
Payments to suppliers	(9,578,550)	(8,656,706)
Payments for employee services and benefits	<u>(1,947,747)</u>	<u>(1,862,625)</u>
Net cash provided by operating activities	<u>3,042,115</u>	<u>3,042,974</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to other funds	-	153,547
Net cash provided (used) by non-capital and related financing activities	<u>-</u>	<u>153,547</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	112,758	126,259
Proceeds from long-term debt	100,000	3,479,923
Principal paid on capital debt	(1,184,600)	(1,039,026)
Purchases of capital assets	(1,049,937)	(926,224)
Purchases of construction in progress	(1,071,080)	(5,504,000)
Interest paid on capital debt	<u>(746,595)</u>	<u>(1,030,084)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,839,454)</u>	<u>(4,893,152)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity (net)	(89,694)	950,798
Interest and dividends	<u>109,757</u>	<u>179,870</u>
Net cash provided by investing activities	<u>20,063</u>	<u>1,130,668</u>
Net increase (decrease) in cash and cash equivalents	(777,276)	(565,963)
Balances-beginning of the year	<u>2,876,527</u>	<u>3,442,490</u>
BALANCES-END OF THE YEAR	<u>\$ 2,099,251</u>	<u>\$ 2,876,527</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,062,673	\$ 1,362,711
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,900,132	1,564,253
Change in assets and liabilities		
Receivables, net	(581)	65,428
Inventory	33,843	21,538
Prepaid expense	-	128,221
Due to/from other funds	68,379	(25,247)
Accounts payable	126,846	(111,325)
Accrued vacation, sick, & holiday	22,494	18,518
Accrued taxes	(44,807)	(6,724)
Other liabilities	(4,761)	(2,369)
Customer deposits	<u>(122,103)</u>	<u>27,970</u>
Net cash provided by operating activities	<u>\$ 3,042,115</u>	<u>\$ 3,042,974</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Payables for capital items, net	<u>\$ (42,944)</u>	<u>\$ (193,885)</u>
Developer contributions	<u>\$ 32,000</u>	<u>\$ 1,777,636</u>

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

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, and the Berea Industrial Authority 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.

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, 2011

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.

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

Tourism Fund - A special revenue fund that receives money from hotel/motel and restaurant taxes and accounts for related expenditures for operations of the Tourism Commission.

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

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

US 25 North – The US 25 North Fund is used to account for a pass through from the state for the complete redesign of US 25. The redesign will be comprised of up to five lanes of traffic including turn lanes at intersections.

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.

Proprietary Funds

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.

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.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting, continued

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. 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.

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.

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.

E. Cash and Investments

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. The City considers all cash, both restricted and unrestricted, as cash for purposes of the Statement of Cash Flows.

The City has restricted cash and investments to satisfy bond issue requirements, including cash and investments restricted for bond payments.

Investments are reported at cost which approximates 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.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Accounts Receivable and Revenues

Accounts receivable is stated net of an allowance for doubtful accounts. The allowance is based upon historical trends and the periodic aging of accounts receivable.

Proprietary funds report all revenue and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

H. Capital Assets

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

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.

I. Internal Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

J. 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.

K. Estimates

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.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balances

As of June 30, 2011, the City of Berea implemented GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balances of the governmental funds are classified as follows:

Nonspendable — amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the City Council. The Council is the highest level of decision-making authority for the City of Berea. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Council.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Only the City Administrator, Finance Director or Audit Committee may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of June 30, 2011 fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable – deferred assets	\$ -	\$ 46,141	\$ 46,141
Restricted:			
Law enforcement	-	39,301	39,301
Road surface repairs	-	168,195	168,195
Debt service	-	21	21
Committed – capital projects	13,839	238,123	251,962
Assigned:			
Capital additions	3,776,058	-	3,776,058
Debt service	1,002,911	-	1,002,911
Other purposes	285,865	1,055,929	1,341,794
Unassigned	826,179	-	826,179
Total fund balances	<u>\$ 5,904,852</u>	<u>\$ 1,547,710</u>	<u>\$ 7,452,562</u>

M. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through September 29, 2011, 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, 2011, have not been evaluated by the City.

N. Other Accounting Policies

Inventory is recorded at cost.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Other Accounting Policies, continued

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

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.

2. CASH AND INVESTMENTS

Credit Risk

Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City's investment policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than one year from the date of purchase.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. In order to anticipate market changes and provide a level of security for all funds, the collateralization level shall be one hundred percent of the market value of the principal, plus accrued interest.

The City's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$15,670,556, and the bank balances totaled \$16,081,426. At June 30, 2011 \$17,507,269 of collateral was pledged to the City by the custodial banks.

Investments in U.S. government obligations, which amounted to \$328,268 at June 30, 2011, were held by the counterparty and carry the implicit guarantee of the U.S. government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that, with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED)

The City's investments at June 30, 2011 consist entirely of certificates of deposit with maturities of one year or less.

3. RECEIVABLES

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General <u>Fund</u>	Nonmajor <u>Funds</u>	Governmental <u>Funds Total</u>
Governmental Funds:			
Taxes	\$ 67,578	\$ 158,388	\$ 225,966
Licenses, permits, billings	1,063,397	-	1,063,397
Charges for Service	7,317	-	7,317
Intergovernmental	51,315	116,070	167,385
Other	<u>5,996</u>	<u>-</u>	<u>5,996</u>
Gross receivables	1,195,603	274,458	1,470,061
Less: allowance for uncollectible	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
Net receivables	<u>\$ 1,155,603</u>	<u>\$ 274,458</u>	<u>\$ 1,430,061</u>
Business Type Activities:	<u>Total</u>		
Customer	\$ 1,879,227		
Less: allowance for uncollectible	<u>-</u>		
Net receivables	<u>\$ 1,879,227</u>		

4. CAPITAL ASSETS

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

	July 1, 2010	Additions	Deductions	June 30, 2011
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,052,134	\$ -	\$ (9,000)	\$ 4,043,134
Construction in Progress (CIP)	3,055,892	541,470	(3,008,405)	588,957
Capital assets that are depreciated:				
Buildings and Improvements	5,771,880	211,805	-	5,983,685
Land Improvements	677,330	-	-	677,330
Vehicles	3,773,880	269,582	(129,873)	3,913,589
Equipment	<u>2,151,902</u>	<u>82,729</u>	<u>-</u>	<u>2,234,631</u>
Totals	19,483,018	1,105,586	(3,147,278)	17,441,326
Infrastructure Assets	<u>7,182,960</u>	<u>2,648,576</u>	<u>-</u>	<u>9,831,536</u>
Total Capital Assets	<u>26,665,978</u>	<u>3,754,162</u>	<u>(3,147,278)</u>	<u>27,272,862</u>
Less Accumulated Depreciation:				
Buildings and Improvements	3,271,650	214,917	-	3,486,567
Land Improvements	98,813	16,933	-	115,746
Vehicles	2,253,812	223,857	(129,873)	2,347,796
Equipment	1,207,938	148,389	-	1,356,327
Infrastructure Assets	<u>739,896</u>	<u>325,250</u>	<u>-</u>	<u>1,065,146</u>
Totals	<u>7,572,109</u>	<u>929,346</u>	<u>(129,873)</u>	<u>8,371,582</u>
Depreciable capital assets, net	<u>\$ 19,093,869</u>	<u>\$ 2,824,816</u>	<u>\$ (3,017,405)</u>	<u>\$ 18,901,280</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

4. CAPITAL ASSETS (CONTINUED)

	July 1, 2010	Additions	Deductions	June 30, 2011
Business-Type Activities:				
Land, Buildings and Easements	\$ 1,922,125	\$ 507,048	\$ -	\$ 2,429,173
Electric system	10,469,040	242,011	-	10,711,051
Water system	8,663,005	9,801,825	-	18,464,830
Plant and sewer system	27,558,249	248,331	-	27,806,580
Vehicle and equipment	1,100,944	66,759	-	1,167,703
Construction in Progress	<u>9,084,312</u>	<u>877,195</u>	<u>(9,741,094)</u>	<u>220,413</u>
Total	<u>58,797,675</u>	<u>11,743,169</u>	<u>(9,741,094)</u>	<u>60,799,750</u>
Less Accumulated Depreciation	<u>16,037,450</u>	<u>1,900,132</u>	<u>-</u>	<u>17,937,582</u>
Capital Assets Net	<u>\$ 42,760,225</u>	<u>\$ 9,843,037</u>	<u>\$ (9,741,094)</u>	<u>\$ 42,862,168</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 72,003
Police	129,499
Fire	120,264
Public Works	315,761
Codes enforcement	2,789
Parks and recreation	245,607
Sanitation	12,168
GIS/Surveying	14,364
Tourism	<u>16,891</u>
Total Depreciation Expense	<u>\$ 929,346</u>

5. CONSTRUCTION IN PROGRESS

The City is in progress on the following projects:

	June 30, 2011
Business-Type Activities	
Exit 76 Water Line	\$ 32,485
Pump Station	50,302
Terrill Branch Extension	104,866
Reservoir project	<u>32,760</u>
Total construction in progress	<u>\$ 220,413</u>
Governmental Activities	
Storm Water Plan	\$ 41,544
Bratcher Lane	88,104
Shared Use Path	116,147
Depot Renovation	<u>343,162</u>
Total construction in progress	<u>\$ 588,957</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

6. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT

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

	June 30, 2010	Additions	Deletions	June 30, 2011
Revenue bonds payable	\$ 16,445,000	\$ -	\$ 835,000	\$ 15,610,000
Notes payable	8,980,058	100,000	349,600	8,730,458
Compensated absences	<u>151,508</u>	<u>19,298</u>	-	<u>170,806</u>
Total debt outstanding	<u>\$ 25,576,566</u>	<u>\$ 119,298</u>	<u>\$ 1,184,600</u>	<u>\$ 24,511,264</u>
Less current portion of:				
Revenue bonds				\$ 865,000
Notes payable				<u>466,898</u>
Current portion				<u>1,331,898</u>
Total long term obligation				<u>\$ 23,179,366</u>

BONDS AND NOTES 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 matured January 1, 2010. Interest on both bond issues is paid semiannually, with principal due on January 1 of each year.

On July 1, 2004, the City of Berea entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) 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, 2011, the City had a balance of \$3,843,686 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.

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, 2011 the City had a balance of \$4,886,772 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The loan calls for a \$100,000 repairs and maintenance reserve.

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2011:

	Principal	Interest	Service Fee	Total
2012	\$ 1,331,898	\$ 715,118	\$ 19,643	\$ 2,066,659
2013	1,361,580	681,243	18,592	2,061,415
2014	1,401,306	645,366	17,532	2,064,204
2015	1,436,081	607,260	16,460	2,059,801
2016	1,480,904	564,037	15,377	2,060,318
2017-21	8,108,574	2,115,166	60,267	10,284,007
2022-26	8,006,606	723,836	31,539	8,761,981
2027-31	<u>1,213,509</u>	<u>30,539</u>	<u>7,635</u>	<u>1,251,683</u>
Total	<u>\$ 24,340,458</u>	<u>\$ 6,082,565</u>	<u>\$ 187,045</u>	<u>\$ 30,610,068</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

6. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT (CONTINUED)

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, 2011, the total long term liability for compensated absences was \$170,806 for the business type activities.

COMPLIANCE WITH RESERVE REQUIREMENTS

The City of Berea is required to maintain the following funds and accounts related to the bond issuance and loan agreement with Kentucky Infrastructure Authority (KIA):

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that 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. There are no required monthly deposits or balance to maintain in the depreciation fund account. The KIA loans call for the creation of a repairs and maintenance reserve of \$350,000. At June 30, 2011, the depreciation fund had a balance of \$1,067,239.

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 balance reaches the lesser of 1) the maximum debt service requirement in any fiscal year, 2) 10% of the proceeds of any series bonds or 3) 125% of the average annual debt service requirement. As of June 30, 2011, the debt service fund had a balance of \$724,577.

7. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT

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

	June 30, 2010	Additions	Deletions	June 30, 2011
Leases payable	\$ 8,361	\$ -	\$ 4,225	\$ 4,136
Park bonds payable	3,190,000	-	645,000	2,545,000
Note payable	397,862	-	150,000	247,862
Compensated absences	<u>474,831</u>	<u>38,929</u>	<u>-</u>	<u>513,760</u>
Total debt outstanding	<u>\$ 4,071,054</u>	<u>\$ 38,929</u>	<u>\$ 799,225</u>	<u>\$ 3,310,758</u>
Less current portion of:				
Leases payable				\$ 1,838
Park bonds				660,000
Note payable				<u>247,862</u>
Current portion				<u>909,700</u>
Total long term obligation				<u>\$ 2,401,058</u>

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:

- 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 lease was paid off during 2011.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

7. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)

LEASES PAYABLE, continued

2. **Office Equipment Rental Company-** The City entered into a capital lease for a copier for the tourism department on September 25, 2008. The term of the lease is 60 months with monthly payments of \$153. The outstanding balance due is \$4,136 at June 30, 2011 to be paid out October 2013.

June 30,	
2012	\$ 1,838
2013	1,838
2014	<u>460</u>
Total leases payable	<u><u>\$ 4,136</u></u>

BONDS AND NOTES PAYABLE

Park Bond Payable

In 1992 the City issued debt for \$2,600,000 to provide for park improvements. On February 2, 1999, the City issued \$2,435,000 in Series 1999 Bonds to advance refund \$2,125,000 of the outstanding 1992 debt. 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.

Park Expansion Bond Payable

On April 8 2008, the City issued \$3,375,000 in General Obligation Public Project Bonds, Series 2008. The proceeds funded the park expansion project. The bonds bear interest at rates ranging from 2.25% - 3.3%.

Industrial Park Note Payable

On June 4, 2010, the City of Berea renewed its note payable with Peoples Bank and Trust Company of Madison County that was originally set to mature June 5, 2010. The renewed note is to borrow \$397,862, the note accrues interest at 4.3%, and the note is payable in one payment of all outstanding principal plus all accrued unpaid interest on June 4, 2012. The City pays regular quarterly payments of all accrued unpaid interest. At June 30, 2011 the balance outstanding on the note was \$247,862.

The schedule below shows the City's total general obligation debt service:

	Principal	Interest	Total
2012	\$ 909,699	\$ 79,568	\$ 989,267
2013	681,838	48,185	730,023
2014	225,461	34,169	259,630
2015	235,000	27,380	262,380
2016	240,000	20,135	260,135
2017-21	<u>505,000</u>	<u>16,623</u>	<u>521,623</u>
Total	<u><u>\$ 2,796,998</u></u>	<u><u>\$ 226,060</u></u>	<u><u>\$ 3,023,058</u></u>

CITY OF BERA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

7. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

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, 2011, the total liability for long term compensated absences was \$513,760 for the governmental activities.

8. CONDUIT DEBT

In December 2010, City Council authorized issuance of Industrial Building Revenue Bonds totaling \$7,500,000 for the purpose of assisting Berea College in the refinancing of certain outstanding industrial building and educational building revenue bonds that were issued for the acquisition, construction, renovation and equipping of an educational building within the City. The bonds are secured by various assets of the borrower. The amount of bonds outstanding at June 30, 2011 is not readily available.

The City has no liability for the Industrial Building Revenue Bonds in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

9. 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, 2011, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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, 2011, participating employers contributed 16.93% 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.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

9. RETIREMENT PLAN (CONTINUED)

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>
2011	\$ 1,075,700	100%
2010	\$ 1,032,600	100%
2009	\$ 878,800	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 37 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 \$105,906 to the plan.

ICMA

The City of Berea provides a defined contribution plan to its full-time employees. 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. The City of Berea does not make contributions to the Plan. 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.

The City of Berea had a total of two employees participating in the ICMA plan. During the fiscal year, employees contributed \$16,200 to the plan. All required contributions were paid at year end or within thirty (30) days thereafter.

10. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2011 were levied in November 2010 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:

Description	Date Per K.R.S. 134.020
1. Due date for payment	November 30
2. Face value payment period	December 1 – December 31
3. Past due date, 10% penalty	January 1
4. Interest charge	12% per annum from Jan 1

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.

11. PRIOR YEAR RECLASSIFICATIONS AND RESTATEMENTS

Certain presentations of accounts previously reported have been reclassified and/or restated in these financial statements to conform with the 2011 financial statement presentation.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

12. 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 \$32,000 and was added to the Commission's capital assets. Also, during the year, the BMU received connection fees totaling \$70,388 from customers connecting to the system, as well as \$30,065 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.

During the year, the Fire Department received a donated vehicle with an estimated fair value of \$38,590. The vehicle was added to the City's general capital assets and was recorded as a capital contribution on the government wide statements.

13. 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.

14. RESTATEMENT OF FUND BALANCES

The City has restated its fund balances as of June 30, 2010 to reflect the elimination of interfund receivables and payables. The amounts transferred in prior periods were not intended to be repaid or were the result of accounting inconsistencies. The following is the effect on fund balances at June 30, 2010:

<u>Description of Fund</u>	<u>Fund Balance as Previously Reported</u>	<u>Increase (Decrease)</u>	<u>Fund Balance as Restated</u>
General Fund	\$ 5,510,166	\$ 16,680	\$ 5,526,846
Municipal Road Aid	282,199	(854)	281,345
Tourism	274,382	697,897	972,279
Industrial Development	401,357	(71,200)	330,157
Menelaus Pike	778	-	778
Berea Corridor	68,896	-	68,896
Police Restricted	62,821	(438)	62,383
Debt Service	21	-	21
Infrastructure Assessment	32,664	-	32,664
Renaissance / Chestnut St	80,197	(46,050)	34,147
Park Improvement	60,707	-	60,707
Capital Projects	231,717	(330,975)	(99,258)
Mayde Road	22,993	(9,169)	13,824
Prospect Street Upgrade	69	-	69
US 25 North	290	-	290
Other Governmental	<u>1,519,091</u>	<u>239,211</u>	<u>1,758,302</u>
Total Governmental	<u>\$ 7,029,257</u>	<u>\$ 255,891</u>	<u>\$ 7,285,148</u>
Total Business Type	<u>\$ 27,520,887</u>	<u>\$ (255,891)</u>	<u>\$ 27,264,996</u>

SUPPLEMENTAL INFORMATION

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 537,000	\$ 537,000	\$ 569,149	\$ 32,149
State assessment property taxes	2,000	4,452	13,610	9,158
In lieu of property tax	8,000	8,000	10,000	2,000
Delinquent property taxes	7,000	7,000	5,113	(1,887)
Bank deposit taxes	56,414	56,414	58,649	2,235
Motor vehicle taxes	30,000	35,000	44,872	9,872
Penalties and interest	2,000	2,000	5,471	3,471
	<u>642,414</u>	<u>649,866</u>	<u>706,864</u>	<u>56,998</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	600,000	600,000	756,002	156,002
Employee withholding	3,800,000	4,000,000	5,181,268	1,181,268
Net profits	150,000	150,000	556,415	406,415
Individual	14,000	14,000	24,410	10,410
Business	1,200	1,200	1,120	(80)
Regulated licenses	4,000	4,000	4,965	965
Penalty and interest	200	200	-	(200)
Utility franchise fees	915,550	912,650	1,012,965	100,315
Building permits	30,000	42,000	31,513	(10,487)
Electric permits	30,000	35,000	40,845	5,845
	<u>5,544,950</u>	<u>5,759,050</u>	<u>7,609,503</u>	<u>1,850,453</u>
CHARGES FOR SERVICE				
Court costs & fees	43,000	43,000	40,628	(2,372)
Accident reports	1,500	1,500	2,393	893
Burning permits	200	200	2	(198)
Street cut permits	2,000	2,000	850	(1,150)
Codes - plat review fee	4,000	4,000	4,140	140
GIS mapping fees	1,000	500	-	(500)
Police special services	-	4,200	3,634	(566)
Demolition cleanup	2,000	2,000	690	(1,310)
Parks concessions	15,000	15,000	21,598	6,598
Pool concessions	30,000	27,000	25,022	(1,978)
Swimming pool fees	50,000	50,000	62,524	12,524
Softball fees	2,000	1,500	325	(1,175)
Miscellaneous	2,625	2,625	2,437	(188)
	<u>153,325</u>	<u>153,525</u>	<u>164,243</u>	<u>10,718</u>

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Parking fines	\$ 15,707	\$ 20,137	\$ 18,711	\$ (1,426)
INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	73,683	3,683
Madison County grants	55,500	55,500	56,125	625
Other grants	6,500	37,251	50,837	13,586
Police incentive pay	89,900	89,900	102,425	12,525
Fire incentive pay	55,000	66,000	73,192	7,192
	<u>276,900</u>	<u>318,651</u>	<u>356,262</u>	<u>37,611</u>
OTHER REVENUE				
Rental income	55,700	58,900	61,298	2,398
Interest income	201,000	81,000	71,288	(9,712)
Insurance proceeds	-	10,000	15,180	5,180
Miscellaneous	8,677	10,877	16,008	5,131
	<u>265,377</u>	<u>160,777</u>	<u>163,774</u>	<u>2,997</u>
TOTAL REVENUE	<u>\$ 6,898,673</u>	<u>\$ 7,062,006</u>	<u>\$ 9,019,357</u>	<u>\$ 1,957,351</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
Administration				
Personnel	\$ 264,500	\$ 264,500	\$ 260,517	\$ (3,983)
Commodities	26,600	23,500	22,715	(785)
Contractual	72,450	74,450	37,979	(36,471)
City Council				
Personnel	56,840	56,840	53,825	(3,015)
Contractual	129,640	131,340	132,348	1,008
Finance Office				
Personnel	282,330	225,500	204,049	(21,451)
Commodities	40,600	47,300	27,177	(20,123)
Contractual	153,700	151,600	95,748	(55,852)
Building Maintenance				
Personnel	37,300	37,300	33,537	(3,763)
Commodities	17,500	17,518	14,437	(3,081)
Contractual	53,500	53,500	48,312	(5,188)
Building Maintenance-Annex				
Personnel	19,901	19,901	14,075	(5,826)
Contractual	26,800	26,600	24,009	(2,591)
General Services				
Contractual	575,180	369,180	351,683	(17,497)
Total Administration	<u>1,756,841</u>	<u>1,499,029</u>	<u>1,320,411</u>	<u>(178,618)</u>
POLICE				
Administration				
Personnel	402,131	402,131	362,685	(39,446)
Commodities	19,250	19,250	29,786	10,536
Contractual	58,245	58,245	47,847	(10,398)
Police Patrol				
Personnel	1,694,701	1,694,701	1,551,302	(143,399)
Commodities	191,925	191,925	190,006	(1,919)
Contractual	22,325	26,825	30,921	4,096
Police Training				
Commodities	8,800	8,800	10,631	1,831
Contractual	20,700	20,700	12,118	(8,582)
Total Police Department	<u>2,418,077</u>	<u>2,422,577</u>	<u>2,235,296</u>	<u>(187,281)</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FIRE				
Administration				
Personnel	\$ 163,101	\$ 163,101	\$ 88,625	\$ (74,476)
Commodities	6,400	6,888	3,309	(3,579)
Contractual	4,600	4,600	409	(4,191)
Fire Suppression				
Personnel	1,193,146	1,195,146	991,214	(203,932)
Commodities	85,500	110,900	66,960	(43,940)
Contractual	60,750	61,300	35,233	(26,067)
Fire Training				
Commodities	9,800	9,800	5,019	(4,781)
Contractual	<u>8,000</u>	<u>8,000</u>	<u>2,186</u>	<u>(5,814)</u>
Total Fire Department	<u>1,531,297</u>	<u>1,559,735</u>	<u>1,192,955</u>	<u>(366,780)</u>
STREETS				
Personnel	768,693	768,693	711,735	(56,958)
Commodities	371,100	391,500	288,741	(102,759)
Contractual services	<u>205,900</u>	<u>245,900</u>	<u>251,846</u>	<u>5,946</u>
Total Street Department	<u>1,345,693</u>	<u>1,406,093</u>	<u>1,252,322</u>	<u>(153,771)</u>
CODES ENFORCEMENT				
Personnel	291,299	256,700	237,903	(18,797)
Commodities	16,850	17,650	14,919	(2,731)
Contractual	<u>64,525</u>	<u>57,525</u>	<u>36,669</u>	<u>(20,856)</u>
Total Codes Enforcement	<u>372,674</u>	<u>331,875</u>	<u>289,491</u>	<u>(42,384)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	239,845	249,845	226,165	(23,680)
Commodities	128,000	142,500	94,504	(47,996)
Contractual services	138,840	157,315	128,668	(28,647)
Pool				
Personnel	114,800	113,300	74,509	(38,791)
Commodities	60,300	58,650	41,315	(17,335)
Contractual services	48,900	46,300	22,496	(23,804)
Intergenerational Center				
Contractual services	<u>33,200</u>	<u>34,200</u>	<u>23,682</u>	<u>(10,518)</u>
Total Parks and Recreation	<u>763,885</u>	<u>802,110</u>	<u>611,339</u>	<u>(190,771)</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2011

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 109,873	\$ 110,905	\$ 107,843	\$ (3,062)
Commodities	39,650	16,650	11,891	(4,759)
Contractual services	<u>25,200</u>	<u>25,200</u>	<u>5,773</u>	<u>(19,427)</u>
Total GIS/Surveying	<u>174,723</u>	<u>152,755</u>	<u>125,507</u>	<u>(27,248)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	63,939	63,939	63,604	(335)
Commodities	6,200	6,200	3,382	(2,818)
Contractual services	<u>12,800</u>	<u>13,800</u>	<u>3,513</u>	<u>(10,287)</u>
Total Business Development	<u>82,939</u>	<u>83,939</u>	<u>70,499</u>	<u>(13,440)</u>
CAPITAL OUTLAY				
Administration	547,911	537,711	31,700	(506,011)
Police	157,200	156,000	143,805	(12,195)
Fire	43,500	35,000	7,121	(27,879)
Streets	87,500	98,500	45,713	(52,787)
Codes enforcement	25,000	25,000	-	(25,000)
Parks and recreation	153,300	117,300	61,300	(56,000)
GIS/Surveying	<u>15,300</u>	<u>48,800</u>	<u>20,500</u>	<u>(28,300)</u>
Total Capital Outlay	<u>1,029,711</u>	<u>1,018,311</u>	<u>310,139</u>	<u>(708,172)</u>
DEBT SERVICE	<u>733,222</u>	<u>722,622</u>	<u>735,792</u>	<u>13,170</u>
TOTAL EXPENDITURES	<u>\$ 10,209,062</u>	<u>\$ 9,999,046</u>	<u>\$ 8,143,751</u>	<u>\$ (1,855,295)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	1,000	2,847	1,847
Transfers in (out)	<u>(2,273,997)</u>	<u>(2,334,174)</u>	<u>(500,447)</u>	<u>1,833,727</u>
	<u>(2,273,997)</u>	<u>(2,333,174)</u>	<u>(497,600)</u>	<u>1,835,574</u>
NET CHANGE IN FUND BALANCE	<u>\$ (5,584,386)</u>	<u>\$ (5,270,214)</u>	<u>\$ 378,006</u>	<u>\$ 5,648,220</u>

* The City adopts the budget in aggregate for all governmental and proprietary funds. The above numbers represent the detail for the general fund, which was included as part of the budget ordinance.

**CITY OF BEREA, KENTUCKY
BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2011**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 761,553	\$ 761,553	\$ 564,964	\$ (196,589)
Commodities	45,300	45,200	63,019	17,819
Contractual	<u>343,550</u>	<u>319,150</u>	<u>289,433</u>	<u>(29,717)</u>
	<u>1,150,403</u>	<u>1,125,903</u>	<u>917,416</u>	<u>(208,487)</u>
Electric				
Personnel	485,994	485,994	481,025	(4,969)
Commodities	8,090,100	8,340,100	8,190,687	(149,413)
Contractual	<u>277,160</u>	<u>395,160</u>	<u>101,848</u>	<u>(293,312)</u>
	<u>8,853,254</u>	<u>9,221,254</u>	<u>8,773,560</u>	<u>(447,694)</u>
Water				
Personnel	491,069	491,069	453,335	(37,734)
Commodities	161,300	168,300	152,807	(15,493)
Contractual	<u>530,550</u>	<u>524,550</u>	<u>463,734</u>	<u>(60,816)</u>
	<u>1,182,919</u>	<u>1,183,919</u>	<u>1,069,876</u>	<u>(114,043)</u>
Sewer				
Personnel	435,100	435,100	426,110	(8,990)
Commodities	68,800	74,800	79,922	5,122
Contractual	<u>304,100</u>	<u>355,100</u>	<u>466,168</u>	<u>111,068</u>
	<u>808,000</u>	<u>865,000</u>	<u>972,200</u>	<u>107,200</u>
Total Expenses	<u>\$ 11,994,576</u>	<u>\$ 12,396,076</u>	<u>\$ 11,733,052</u>	<u>\$ (663,024)</u>

**CITY OF BEREA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2011**

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Renaissance /Chestnut St. Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2011 Total	2010 Total
ASSETS																
Cash and cash equivalents	\$ 140,799	\$ 170,657	\$ 110,305	\$ 6,184	\$ -	\$ 39,301	\$ 21	\$ 32,746	\$ -	\$ -	\$ 740	\$ 13,824	\$ 1,661	282	\$ 516,520	\$ 843,898
Investments	-	601,656	250,558	-	-	-	-	-	-	-	-	-	-	-	852,214	855,322
Accounts receivable	27,396	158,388	-	-	37,406	-	-	-	-	-	-	-	40,118	11,150	274,458	325,722
Interest receivable	-	127	51	-	-	-	-	-	-	-	-	-	-	-	178	991
Other assets	-	-	-	-	-	-	-	-	-	46,141	-	-	-	-	46,141	52,733
Due from other fund	-	-	-	-	-	-	-	-	-	-	43,864	-	-	-	43,864	-
Total assets	\$ 168,195	\$ 930,828	\$ 360,914	\$ 6,184	\$ 37,406	\$ 39,301	\$ 21	\$ 32,746	\$ -	\$ 46,141	\$ 44,604	\$ 13,824	\$ 41,779	\$ 11,432	\$ 1,733,375	\$ 2,078,666
LIABILITIES AND FUND BALANCE																
Liabilities																
Accounts payable	\$ -	68,042	\$ -	\$ -	\$ 37,406	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,864	\$ -	\$ -	11,150	\$ 160,462	\$ 310,494
Accrued payroll	-	3,914	-	-	-	-	-	-	-	-	-	-	-	-	3,914	-
Compensated absences	-	12,052	-	-	-	-	-	-	-	-	-	-	-	-	12,052	-
Due to other fund	-	9,237	-	-	-	-	-	-	-	-	-	-	-	-	9,237	9,870
Total liabilities	-	93,245	-	-	37,406	-	-	-	-	-	43,864	-	-	11,150	185,665	320,364
Fund balance	168,195	837,583	360,914	6,184	-	39,301	21	32,746	-	46,141	740	13,824	41,779	282	1,547,710	1,758,302
Total liabilities and fund balances	\$ 168,195	\$ 930,828	\$ 360,914	\$ 6,184	\$ 37,406	\$ 39,301	\$ 21	\$ 32,746	\$ -	\$ 46,141	\$ 44,604	\$ 13,824	\$ 41,779	\$ 11,432	\$ 1,733,375	\$ 2,078,666

CITY OF BERA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2011

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Renaissance/ Chestnut St. Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2011 Total	2010 Total
REVENUES																
Municipal Taxation	\$ -	\$ 958,235	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 958,235	\$ 955,047
Intergovernmental revenues	226,177	19,625	-	-	37,406	4,241	-	-	-	-	-	-	250	70,316	358,015	554,039
Other revenues	785	21,752	15,106	6	-	108	-	82	57	13	29	-	1,001	2	38,941	109,963
Total revenues	<u>226,962</u>	<u>999,612</u>	<u>15,106</u>	<u>6</u>	<u>37,406</u>	<u>4,349</u>	<u>-</u>	<u>82</u>	<u>57</u>	<u>13</u>	<u>29</u>	<u>-</u>	<u>1,251</u>	<u>70,318</u>	<u>1,355,191</u>	<u>1,619,049</u>
EXPENDITURES																
Current																
General administration	-	-	-	-	6	-	-	-	-	-	4,693	-	-	10	4,709	14,350
Police department	-	-	-	-	-	1,552	-	-	-	-	-	-	-	-	1,552	-
Fire department	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street department	340,112	-	-	600	-	-	-	-	-	-	15,655	-	-	-	356,367	463,309
Parks and recreation	-	-	-	-	-	-	-	-	-	-	4,990	-	-	-	4,990	9,073
Tourism	-	772,508	-	-	-	-	-	-	-	-	-	-	-	-	772,508	747,861
Industrial Development	-	-	4,349	-	-	-	-	-	-	-	-	-	-	-	4,349	5,891
State Contracts	-	-	-	-	37,406	-	-	-	-	-	-	-	250	70,316	107,972	93,323
Capital outlay	-	359,962	-	-	-	23,143	-	-	-	313	275,412	-	-	-	658,830	922,091
Debt service	-	1,838	166,523	-	-	-	-	-	-	6,592	-	-	-	-	174,953	1,040,288
Total expenditures	<u>340,112</u>	<u>1,134,308</u>	<u>170,872</u>	<u>600</u>	<u>37,412</u>	<u>24,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,905</u>	<u>300,750</u>	<u>-</u>	<u>250</u>	<u>70,326</u>	<u>2,086,230</u>	<u>3,296,186</u>
Excess revenues over (under) expenditures before other sources (uses)	(113,150)	(134,696)	(155,766)	(594)	(6)	(20,346)	-	82	57	(6,892)	(300,721)	-	1,001	(8)	(731,039)	(1,677,137)
Other financing sources																
Lease proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,188
Proceeds from sale of assets	-	-	20,000	-	-	-	-	-	-	-	-	-	-	-	20,000	250,000
Transfers from other funds	-	-	166,523	6,000	(68,890)	(2,736)	-	-	(34,204)	(7,674)	400,719	-	40,709	-	500,447	384,720
Excess revenues and other sources over (under) expenditures	(113,150)	(134,696)	30,757	5,406	(68,896)	(23,082)	-	82	(34,147)	(14,566)	99,998	-	41,710	(8)	(210,592)	(1,033,229)
Fund balances, July 1, 2010, as restated	<u>281,345</u>	<u>972,279</u>	<u>330,157</u>	<u>778</u>	<u>68,896</u>	<u>62,383</u>	<u>21</u>	<u>32,664</u>	<u>34,147</u>	<u>60,707</u>	<u>(99,258)</u>	<u>13,824</u>	<u>69</u>	<u>290</u>	<u>1,758,302</u>	<u>2,791,531</u>
FUND BALANCES- JUNE 30, 2011	<u>\$ 168,195</u>	<u>\$ 837,583</u>	<u>\$ 360,914</u>	<u>\$ 6,184</u>	<u>\$ -</u>	<u>\$ 39,301</u>	<u>\$ 21</u>	<u>\$ 32,746</u>	<u>\$ -</u>	<u>\$ 46,141</u>	<u>\$ 740</u>	<u>\$ 13,824</u>	<u>\$ 41,779</u>	<u>\$ 282</u>	<u>\$ 1,547,710</u>	<u>\$ 1,758,302</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**

Mayor and the City Council
City of Berea
Berea, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 29, 2011. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
September 29, 2011