

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

---

**FINANCIAL STATEMENTS**  
**June 30, 2012**

## CONTENTS

Management's Discussion and Analysis.....	1-10
Independent Auditors' Report .....	11-12
Government Wide Financial Statements	
Statement of Net Assets.....	13
Statement of Activities .....	14
Fund Financial Statements	
Balance Sheet-Governmental Funds.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds .....	16
Balance Sheet - Proprietary Funds.....	17
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	18
Statement of Cash Flows - Proprietary Funds.. ..	19
Notes to Financial Statements .....	20-34
Required Supplemental Information	
Budget Information – Major Governmental Funds .....	35-39
Supplemental Information	
Budget Information – Major Proprietary Funds .....	40
Combining Balance Sheet – Nonmajor Governmental Funds .....	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds .....	42
Report in Accordance with Government Auditing Standards.....	43

## **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, 2012. 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 internal control and 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 resources the City has left over after its debts are settled—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net assets is an indicator of whether its financial health 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 provided include electric, water, and sewer.

## **FUND FINANCIAL STATEMENTS**

The fund financial statement presentation focuses 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**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2012 Total Primary Government</b>	<b>2011 Total Primary Government</b>
Current Assets	\$ 8,218,818	\$ 9,566,897	\$ 17,785,715	\$ 17,205,336
Capital Assets	19,149,769	42,029,399	61,179,168	61,763,448
Other Noncurrent Assets	39,549	2,954,084	2,993,633	2,825,955
Total Assets	<u>27,408,136</u>	<u>54,550,380</u>	<u>81,958,516</u>	<u>81,794,739</u>
Long-Term Liabilities	1,957,997	21,839,370	23,797,367	25,580,424
Current Liabilities	1,330,394	3,586,116	4,916,510	5,380,679
Total Liabilities	<u>3,288,391</u>	<u>25,425,486</u>	<u>28,713,877</u>	<u>30,961,103</u>
Net Assets:				
Invested in Capital Assets				
Net of Related Debt	17,035,953	18,913,956	35,949,909	34,625,992
Restricted	582,276	1,998,659	2,580,935	1,999,333
Unrestricted	6,501,516	8,212,279	14,713,795	14,208,311
Total Net Assets	<u>\$ 24,119,745</u>	<u>\$ 29,124,894</u>	<u>\$ 53,244,639</u>	<u>\$ 50,833,636</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 \$53,244,639. The City’s total assets increased by \$163,777, due mainly to the accumulation of cash in the Utilities which will be used to fund several capital projects in the early part of fiscal year 2013. The City’s liabilities decreased by \$2,247,226 as a result of principal payments on the City’s bonds and notes. This resulted in an overall increase in net assets of \$2,411,003. However, over half 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 \$2,580,935 of the City’s net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$14,713,795 is unrestricted, which shows an increase of \$505,484 over the 2011 amount.

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

**Table 2**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2012 Total Primary Government</b>	<b>2011 Total Primary Government</b>
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 235,263	\$ 14,749,035	\$ 14,984,298	\$ 14,860,100
Operating Grants & Contributions	919,093	-	919,093	714,277
Capital Grants & Contributions	57,956	403,546	461,502	182,998
General Revenue				
Taxes	1,773,916	-	1,773,916	1,665,099
License fees	7,867,138	-	7,867,138	7,537,145
Permits	110,401	-	110,401	72,358
Investment Earnings	50,338	68,198	118,536	187,662
Other Revenues	112,352	-	112,352	135,051
<b>Total Revenues</b>	<b>11,126,457</b>	<b>15,220,779</b>	<b>26,347,236</b>	<b>25,354,690</b>
<u>Program Expenses</u>				
General Government	1,629,539	-	1,629,539	1,399,758
Public Safety - Police	2,480,473	-	2,480,473	2,373,906
Public Safety - Fire	1,301,436	-	1,301,436	1,318,508
Public Works	1,999,706	-	1,999,706	1,927,570
Codes enforcement	340,765	-	340,765	293,113
Parks and Recreation	854,159	-	854,159	862,234
Sanitation	12,168	-	12,168	12,168
GIS/Surveying	153,974	-	153,974	140,257
Business Development	74,591	-	74,591	70,770
Tourism	946,291	-	946,291	807,937
Industrial Development	-	-	-	4,349
State Contracts	155,663	-	155,663	107,972
Interest on Long-term Debt	75,138	-	75,138	119,340
Utilities	-	13,894,257	13,894,257	14,408,176
<b>Total Program Expenses</b>	<b>10,023,903</b>	<b>13,894,257</b>	<b>23,918,160</b>	<b>23,846,058</b>
Gain/(Loss) on Sale of Property	(18,073)	-	(18,073)	(247,956)
<b>Change in Net Position</b>	<b>\$ 1,084,481</b>	<b>\$ 1,326,522</b>	<b>\$ 2,411,003</b>	<b>\$ 1,260,676</b>

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 \$1,084,481 compared to the prior year's increase of \$727,300. This year's increase in net assets from governmental activities accounts for 45% of the total growth in the net assets of the City as a whole. This results from an overall increase in governmental revenue of \$713,319 (7%) which offset a \$586,021 (6%) increase in expenses. Key elements of affecting governmental net assets include:

- \$204,816 (29%) increase in operating grants and contributions
- \$159,706 (3%) increase in occupational license fees on payroll
- \$89,836 (15%) increase in occupational license fees on net profits
- \$71,020 (43%) increase in charges for services
- \$36,037 (42%) decrease in interest earned on CDs

Business-type activities increased the City's net assets by \$1,326,522 compared to the prior year's increase in net assets of \$533,376. Key elements of this increase include:

- \$259,138 (179%) increase in grant revenue from capital projects
- \$513,919 (4%) decrease in operating expenses
- \$279,227 (2%) increase in operating revenues
- \$33,089 (49%) decrease in interest earned on CDs

## **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**

	2012	2011
Revenues		
Taxes	\$ 1,773,916	\$ 1,665,099
Licenses and permits	7,977,539	7,609,503
Charges for Services	235,263	164,243
Fines & Forfeits	7,582	18,711
Intergovernmental	977,049	714,277
Other Revenues	155,108	202,715
Total Revenues	<u>11,126,457</u>	<u>10,374,548</u>
Expenditures		
General Government	1,522,041	1,325,120
Public Safety - Police	2,315,947	2,236,848
Public Safety - Fire	1,163,637	1,192,955
Public Works	1,645,590	1,608,689
Codes Enforcement	333,817	289,491
Parks and Recreation	658,127	616,329
GIS/Surveying	130,846	125,507
Business Development	73,813	70,499
Tourism	912,944	772,508
Industrial Development	-	4,349
State Contracts	155,663	107,972
Capital Outlay	1,219,594	968,969
Debt Service	886,737	910,745
Total Expenditures	<u>11,018,756</u>	<u>10,229,981</u>
Excess revenues over (under) before other sources (uses)	<u>107,701</u>	<u>144,567</u>
Other Financing Sources (Uses)		
Note proceeds	120,000	-
Proceeds from sale of assets	18,250	22,847
Transfers in (out)	-	-
Total Other Financing Sources (Uses)	<u>138,250</u>	<u>22,847</u>
Net Change in Fund Balance	<u>\$ 245,951</u>	<u>\$ 167,414</u>

Total fund balance for all governmental funds has increased 3% from the prior year. Key elements of these changes include:

- Revenue increased a total of \$751,909 (7%). As mentioned previously, the increase in grant revenues, occupational license fees on payroll and net profits offsets the decreases in other categories of revenue such as decreased interest.
- Seller financing for property purchased by the City provided \$120,000 increase in fund balance.
- \$250,625 (26%) increase in capital outlay.
- \$190,436 (26%) increase in Tourism expenditures.
- \$196,921 (15%) increase in General Government expenditures.
- \$44,325 (15%) increase in Codes Enforcement expenditures.



**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 more information is available; to recognize new funding amounts from external sources, such as federal and state grants; and to increase 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**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Taxes	\$ 659,200	\$ 760,487	\$ 101,287
Licenses, Permits & Billings	6,163,200	7,977,539	1,814,339
Charges for Services	146,350	193,436	47,086
Fines & Forfeitures	19,200	7,582	(11,618)
Intergovernmental	344,825	369,754	24,929
Other Revenue	126,502	134,632	8,130
<b>Total Revenues</b>	<b>\$ 7,459,277</b>	<b>\$ 9,443,430</b>	<b>\$ 1,984,153</b>

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

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Administration	\$ 1,606,804	\$ 1,475,771	\$ (131,033)
Police	2,461,284	2,314,221	(147,063)
Fire	1,355,062	1,163,637	(191,425)
Public Works	1,490,600	1,288,258	(202,342)
Codes Enforcement	397,625	333,817	(63,808)
Parks & Recreation	829,806	658,127	(171,679)
GIS/Surveying	161,864	130,846	(31,018)
Business Development	87,395	73,813	(13,582)
Capital Outlay	810,560	357,962	(452,598)
Debt Service	728,911	729,687	776
<b>Total Expenditures</b>	<b>\$ 9,929,911</b>	<b>\$ 8,526,139</b>	<b>\$ (1,403,772)</b>

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 \$1,984,153 or 27%.

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 \$1,403,773 or 14% below budgeted amounts. The majority of

this difference was based on capital items or projects 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, 2012, totals \$90,347,309, a 3% increase from the prior year. Major capital asset transactions during the year include:

- Purchase of 300 Chestnut Street at the cost of \$285,000.
- Completion of the Depot Renovation with a total project cost of \$593,621 over a two year period, \$250,459 of which was incurred during fiscal year 2012.
- Purchase of a digger truck for use in the electric division of Berea Utilities at a cost of \$205,184.
- Partial implementation of Springbrook software system totalling \$185,840 included in construction in progress.
- Construction on the Indian Fort Trail between Harrison Road on Shortline Pike totals \$182,757 during fiscal year 2012 added to construction in progress.
- Purchase of seven vehicles for a total cost of \$169,073. Vehicles include four general fund use and three for Berea Utilities.
- Erection of the Berea Utilities Solar Farm at a total cost of \$141,152.
- Installation of water and electric meters that are read electronically for a cost of \$116,468.
- Purchase of a sewer line inspection camera system at a cost of \$88,700.

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

**Table 6**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2012 Total Primary Government</b>	<b>2011 Total Primary Government</b>
Land, Buildings & Improvements	\$ 11,654,449	\$ 2,477,861	\$ 14,132,310	\$ 13,133,322
Construction in Progress	686,959	396,840	1,083,799	809,370
Vehicles & Equipment	6,176,987	1,602,745	7,779,732	7,315,923
Infrastructure/Utility Plant	9,831,538	57,519,930	67,351,468	66,813,997
Total Capital Assets	<u>28,349,933</u>	<u>61,997,376</u>	<u>90,347,309</u>	<u>88,072,612</u>
Less Accumulated Depreciation	(9,200,164)	(19,967,977)	(29,168,141)	(26,309,164)
Total Net Capital Assets	<u>\$ 19,149,769</u>	<u>\$ 42,029,399</u>	<u>\$ 61,179,168</u>	<u>\$ 61,763,448</u>

## DEBT

The City's long term debt at June 30, 2012 totaled \$25,962,337. The City's debt decreased by \$1,859,685 (7%) during the fiscal year. Table 7 provides a summary of all of the City's outstanding indebtedness.

**Table 7**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2012 Total Primary Government</b>	<b>2011 Total Primary Government</b>
Leases	\$ 8,816	\$ -	\$ 8,816	\$ 4,136
Bonds Payable	1,885,000	14,745,000	16,630,000	18,155,000
Loans Payable	220,000	8,263,560	8,483,560	8,978,320
Compensated Absences	647,572	192,389	839,961	684,566
Total Debt Outstanding	<u>2,761,388</u>	<u>23,200,949</u>	<u>25,962,337</u>	<u>27,822,022</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS**

After more than two decades the presentation of the budget for Berea will change, new financial software, Springbrook, has been purchased. With the new software came an updated Chart of Accounts, causing the administration to scrutinize each revenue and expenditure line item producing a budget more congruent to our receipt and expenditure patterns. The 2012-13 budgets as presented, reveals the economic outlook for the City remaining strong. Local manufacturing facilities continue to grow in employment numbers adding to our collection of occupational licenses fees. Thus creating a substantial tax base to support the budgets as presented. The City does remain dependent on the Occupational licenses fee even though our tax base was diversified in 2007. The Insurance Premium Tax has made up for losses in our economy other than manufacturing. Our continued practices of conservative budgeting, with strict adherence to budgeted line items and the protection of our investments remain the strength of the City’s financial future.

The 2012-13 budgets contains the final payment of the 1998 Park Bond, final payment on the Prospect Street project, final payment on the Moore Farm industrial property and includes the final payment of the front loaded portion of the 2008 bond issue. More than \$ 600,000 in debt service included in this budget will be free for other programs in the future.

The 2012-13 budgets provide funds for infrastructure improvements in the amount of \$ 400,000. Projects supported by this budget include the extension of the Indian Fort shared use path, Water Street Drainage project, Scaffold Cane side walk plan and lighting in the Folk Center. 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 Berea Municipal Utilities budget for the 2012-13 is supported by an increase in electric rates both the volumetric rate and the monthly service fee, giving the Utilities a firm revenue stream that covers cost of both transmission and distribution cost . The Utilities continues to upgrade the electrical system in addition to building a new Walnut Meadow Pump Station and the 76 Water line loop. Later in the fiscal year the Terrill Branch Sewer line extension will be completed. The management of the Utilities continues to work toward a strong group of Energy Efficiency programs.

## **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.



Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT**

Mayor and the City Council  
City of Berea  
Berea, Kentucky

Stephen R. Allen, CPA/PFS  
Dennis H. England, CPA  
Michael D. Foley, CPA  
Lyman Hager, Jr., CPA/PFS  
Jerry W. Hensley, CPA

J. Carroll Luby, CPA

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, 2012, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2012, 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 17, 2012, 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.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326  
Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

[www.rfhco.com](http://www.rfhco.com)

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Our audit was conducted for the purpose of forming an opinion 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 17, 2012

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

	<b>Primary Government</b>			<b>2011 Totals</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,357,434	\$ 321,361	\$ 1,678,795	\$ 1,477,812
Investments	5,296,368	6,934,029	12,230,397	12,400,928
Receivables (net) (Note 3)	1,562,011	2,270,949	3,832,960	3,309,288
Other receivable	-	33,783	33,783	5,220
Interest receivable	4,260	5,520	9,780	12,088
Internal balances	(1,255)	1,255	-	-
Total current assets	<u>8,218,818</u>	<u>9,566,897</u>	<u>17,785,715</u>	<u>17,205,336</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	1,998,659	1,998,659	1,791,816
Inventory	-	585,914	585,914	590,013
Capital assets (Note 4)				
Construction in progress	686,959	396,840	1,083,799	809,370
Land	4,183,943	106,883	4,290,826	4,043,134
Land improvements, net	544,651	1,969,249	2,513,900	2,656,596
Depreciable infrastructure, net	8,440,257	-	8,440,257	8,766,392
Plant and sewer system, net	-	14,705,445	14,705,445	15,472,689
Plant and electric system, net	-	7,959,825	7,959,825	8,028,368
Plant and water system, net	-	16,117,796	16,117,796	16,601,372
Depreciable buildings, property, and equipment, net	5,293,959	773,361	6,067,320	5,385,527
Other assets	39,549	369,511	409,060	444,126
Total noncurrent assets	<u>19,189,318</u>	<u>44,983,483</u>	<u>64,172,801</u>	<u>64,589,403</u>
Total assets	<u>\$ 27,408,136</u>	<u>\$ 54,550,380</u>	<u>\$ 81,958,516</u>	<u>\$ 81,794,739</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 355,730	\$ 1,594,080	\$ 1,949,810	\$ 2,095,549
Accrued payroll	158,418	20,184	178,602	209,154
Accrued taxes	-	54,835	54,835	47,317
Accrued interest payable	6,698	6,886	13,584	15,292
Customer deposits	-	548,224	548,224	533,262
Compensated absences	6,157	328	6,485	238,507
Current portion of long-term obligations (Notes 6 & 7)	803,391	1,361,579	2,164,970	2,241,598
Total current liabilities	<u>1,330,394</u>	<u>3,586,116</u>	<u>4,916,510</u>	<u>5,380,679</u>
Noncurrent liabilities				
Compensated absences	647,572	192,389	839,961	684,566
Noncurrent portion of long-term obligations (Notes 6 & 7)	1,310,425	21,646,981	22,957,406	24,895,858
Total noncurrent liabilities	<u>1,957,997</u>	<u>21,839,370</u>	<u>23,797,367</u>	<u>25,580,424</u>
Total liabilities	<u>3,288,391</u>	<u>25,425,486</u>	<u>28,713,877</u>	<u>30,961,103</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	17,035,953	18,913,956	35,949,909	34,625,992
Restricted for				
Debt service	-	738,663	738,663	724,598
Depreciation	-	1,259,996	1,259,996	1,067,239
Other purposes	582,276	-	582,276	207,496
Unrestricted	<u>6,501,516</u>	<u>8,212,279</u>	<u>14,713,795</u>	<u>14,208,311</u>
Total net assets	<u>24,119,745</u>	<u>29,124,894</u>	<u>53,244,639</u>	<u>50,833,636</u>
Total liabilities and net assets	<u>\$ 27,408,136</u>	<u>\$ 54,550,380</u>	<u>\$ 81,958,516</u>	<u>\$ 81,794,739</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government			2011 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 1,629,539	\$ -	\$ -	\$ -	\$ (1,629,539)	\$ -	\$ (1,629,539)	\$ (1,399,758)
Public safety-Police	2,480,473	54,760	236,829	-	(2,188,884)	-	(2,188,884)	(2,128,634)
Public safety-Fire	1,301,436	15	107,096	-	(1,194,325)	-	(1,194,325)	(1,168,724)
Public works	1,999,706	575	404,505	57,956	(1,536,670)	-	(1,536,670)	(1,667,974)
Codes enforcement	340,765	8,743	-	-	(332,022)	-	(332,022)	(288,283)
Parks and recreation	854,159	129,277	15,000	-	(709,882)	-	(709,882)	(732,203)
Sanitation	12,168	-	-	-	(12,168)	-	(12,168)	(12,168)
GIS/Surveying	153,974	66	-	-	(153,908)	-	(153,908)	(140,257)
Business development	74,591	-	-	-	(74,591)	-	(74,591)	(70,770)
Tourism	946,291	41,827	-	-	(904,464)	-	(904,464)	(788,312)
Industrial development	-	-	-	-	-	-	-	(4,349)
State contracts	155,663	-	155,663	-	-	-	-	-
Interest on long-term debt	75,138	-	-	-	(75,138)	-	(75,138)	(119,340)
Total governmental activities	10,023,903	235,263	919,093	57,956	(8,811,591)	-	(8,811,591)	(8,520,772)
<b>Business type activities</b>								
Berea Municipal Utilities	13,894,257	14,749,035	-	403,546	-	1,258,324	1,258,324	432,089
Total business-type activities	13,894,257	14,749,035	-	403,546	-	1,258,324	1,258,324	432,089
<b>Total primary government</b>	<b>\$ 23,918,160</b>	<b>\$ 14,984,298</b>	<b>\$ 919,093</b>	<b>\$ 461,502</b>	<b>(8,811,591)</b>	<b>1,258,324</b>	<b>(7,553,267)</b>	<b>(8,088,683)</b>
<b>General revenues</b>								
Taxes:								
Property taxes, levied for general purposes					760,487	-	760,487	706,864
Transient room tax					126,483	-	126,483	119,711
Restaurant tax					886,946	-	886,946	838,524
License fees:								
Franchise					1,019,074	-	1,019,074	1,012,965
Payroll					5,340,974	-	5,340,974	5,181,268
Insurance premiums					830,344	-	830,344	756,002
Occupational					676,746	-	676,746	586,910
Permits:								
Building					55,698	-	55,698	31,513
Electric					54,703	-	54,703	40,845
Investment earnings					50,338	68,198	118,536	187,662
Miscellaneous					112,352	-	112,352	135,051
Total general revenues					9,914,145	68,198	9,982,343	9,597,315
Gain (loss) on disposal of fixed assets					(18,073)	-	(18,073)	(247,956)
Transfers in(out)					-	-	-	-
<b>Change in Net Assets</b>					1,084,481	1,326,522	2,411,003	1,260,676
Net assets-beginning					23,035,264	27,798,372	50,833,636	49,572,960
<b>NET ASSETS-ENDING</b>					<b>\$ 24,119,745</b>	<b>\$ 29,124,894</b>	<b>\$ 53,244,639</b>	<b>\$ 50,833,636</b>

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



**CITY OF BEREA, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012**

	General	Other Governmental Funds	Total Governmental Funds	2011 Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 745,389	\$ 612,045	\$ 1,357,434	\$ 1,170,377
Investments	4,541,198	755,170	5,296,368	5,527,032
Receivables, net	1,169,773	392,238	1,562,011	1,430,061
Interest receivable	3,721	539	4,260	5,458
Prepaid expenses	-	-	-	-
Due from other funds	4,234	170,231	174,465	121,480
Other assets	-	-	-	46,141
Total assets	\$ 6,464,315	\$ 1,930,223	\$ 8,394,538	\$ 8,300,549
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 102,375	\$ 253,355	\$ 355,730	\$ 438,679
Accrued payroll and related liabilities	153,843	4,575	158,418	181,403
Compensated absences	5,578	579	6,157	174,804
Due to other funds	171,486	4,234	175,720	53,101
Total liabilities	433,282	262,743	696,025	847,987
<b>Fund balances</b>				
Nonspendable	-	-	-	46,141
Restricted	-	582,276	582,276	207,517
Committed	238,365	-	238,365	251,962
Assigned	4,854,341	1,085,204	5,939,545	6,120,763
Unassigned	938,327	-	938,327	826,179
Total fund balances	6,031,033	1,667,480	7,698,513	7,452,562
Total liabilities and fund balance	\$ 6,464,315	\$ 1,930,223	\$ 8,394,538	\$ 8,300,549

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

Fund balances reported above	\$ 7,698,513	\$ 7,452,562
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,149,769	18,901,280
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(6,698)	(7,820)
Deferred bond costs	39,549	-
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,761,388)	(3,310,758)
Net assets of governmental activities:	\$ 24,119,745	\$ 23,035,264

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, 2012**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2011 Totals</u>
<b>REVENUES</b>				
Taxes	\$ 760,487	\$ 1,013,429	\$ 1,773,916	\$ 1,665,099
Licenses and permits	7,977,539	-	7,977,539	7,609,503
Charges for services	193,436	41,827	235,263	170,224
Fines and forfeits	7,582	-	7,582	18,711
Intergovernmental	369,754	607,295	977,049	714,277
Other revenues	<u>134,632</u>	<u>20,476</u>	<u>155,108</u>	<u>196,734</u>
Total revenues	<u>9,443,430</u>	<u>1,683,027</u>	<u>11,126,457</u>	<u>10,374,548</u>
<b>EXPENDITURES</b>				
Current:				
General administration	1,475,771	46,270	1,522,041	1,325,120
Public safety-police	2,314,221	1,726	2,315,947	2,236,848
Public safety-fire	1,163,637	-	1,163,637	1,192,955
Public works	1,288,258	357,332	1,645,590	1,608,689
Codes enforcement	333,817	-	333,817	289,491
Parks and recreation	658,127	-	658,127	616,329
GIS/Surveying	130,846	-	130,846	125,507
Business development	73,813	-	73,813	70,499
Tourism	-	912,944	912,944	772,508
Industrial development	-	-	-	4,349
State contracts	-	155,663	155,663	107,972
Capital outlay	357,962	861,632	1,219,594	968,969
Debt service	<u>729,687</u>	<u>157,050</u>	<u>886,737</u>	<u>910,745</u>
Total expenditures	<u>8,526,139</u>	<u>2,492,617</u>	<u>11,018,756</u>	<u>10,229,981</u>
Excess (deficiency) of revenues over expenditures	<u>917,291</u>	<u>(809,590)</u>	<u>107,701</u>	<u>144,567</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Note proceeds	-	120,000	120,000	-
Proceeds from sale of assets	8,250	10,000	18,250	22,847
Transfers in (out)	<u>(799,360)</u>	<u>799,360</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>(791,110)</u>	<u>929,360</u>	<u>138,250</u>	<u>22,847</u>
<b>Net change in fund balances</b>	126,181	119,770	245,951	167,414
Fund balances-beginning, as restated	<u>5,904,852</u>	<u>1,547,710</u>	<u>7,452,562</u>	<u>7,285,148</u>
<b>Fund balances-ending</b>	<u>\$ 6,031,033</u>	<u>\$ 1,667,480</u>	<u>\$ 7,698,513</u>	<u>\$ 7,452,562</u>
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ 245,951	\$ 167,414
add: capital outlay expenditures capitalized			1,219,594	968,969
add: debt service expenditures			886,737	910,745
add: contributed capital			-	38,590
less: proceeds from sale of assets			(18,250)	(22,847)
gain (loss) on disposal of property and construction in progress			(18,073)	(247,956)
add: amortization of deferred bond cost			39,549	-
less: change in compensated absences which does not require current financial resources			(133,812)	(38,929)
less: note proceeds			(120,000)	-
less: depreciation on governmental activities assets			(942,077)	(929,346)
less: interest on long term debt			<u>(75,138)</u>	<u>(119,340)</u>
Change in net assets Governmental Activities			<u>\$ 1,084,481</u>	<u>\$ 727,300</u>

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

**CITY OF BEREA, KENTUCKY  
BALANCE SHEET  
BUSINESS TYPE ACTIVITIES  
PROPRIETARY FUNDS  
June 30, 2012**

	<b>Business Type Activities Utilities</b>	
	<b>2012</b>	<b>2011 Totals</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 321,361	\$ 307,435
Investments	6,934,029	6,873,896
Receivables (net)	2,270,949	1,879,227
Other receivables	33,783	5,220
Interest receivable	5,520	6,630
Due from (to) other funds	1,255	(68,379)
Total current assets	9,566,897	9,004,029
Noncurrent assets		
Restricted cash and cash equivalents	1,998,659	1,791,816
Inventory	585,914	590,013
Capital assets		
Construction in progress	396,840	220,413
Land, easements and buildings	2,477,861	2,429,173
Plant and electric equipment	11,070,808	10,711,051
Plant and water equipment	18,555,042	18,464,830
Plant and sewer equipment	27,894,080	27,806,580
Vehicle and equipment	1,602,745	1,167,703
Less accumulated depreciation	(19,967,977)	(17,937,582)
Other assets, (net)	369,511	397,985
Total noncurrent assets	44,983,483	45,641,982
Total assets	\$ 54,550,380	\$ 54,646,011
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 1,594,080	\$ 1,656,870
Accrued payroll and related liabilities	20,184	27,751
Accrued taxes	54,835	47,317
Accrued interest payable	6,886	7,472
Customer deposits	548,224	533,262
Accrued leave	328	63,703
Bonds, notes, and loans payable	1,361,579	1,331,898
Total current liabilities	3,586,116	3,668,273
Noncurrent liabilities		
Compensated absences	192,389	170,806
Bonds, notes, and loans payable	21,646,981	23,008,560
Total noncurrent liabilities	21,839,370	23,179,366
Total liabilities	25,425,486	26,847,639
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	19,020,839	18,521,710
Restricted for debt service	738,663	724,577
Restricted for depreciation reserve	1,259,996	1,067,239
Unrestricted	8,105,396	7,484,846
Total net assets	29,124,894	27,798,372
Total liabilities and net assets	\$ 54,550,380	\$ 54,646,011

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, 2012**

	<b>Business Type Activities Utilities</b>	
	<b>2012</b>	<b>2011 Totals</b>
<b>Operating revenues</b>		
Electric service	\$ 9,008,590	\$ 9,898,655
Water service	2,972,246	2,607,666
Sewer service	2,617,488	1,949,999
Other revenues	<u>150,711</u>	<u>239,537</u>
Total operating revenues	<u>14,749,035</u>	<u>14,695,857</u>
<b>Operating expenses</b>		
Administration	979,144	917,416
Electric	8,075,545	8,773,560
Water	1,139,497	1,069,876
Sewer	929,962	972,200
Depreciation and amortization	<u>2,048,869</u>	<u>1,900,132</u>
Total operating expenses	<u>13,173,017</u>	<u>13,633,184</u>
Operating income (loss)	<u>1,576,018</u>	<u>1,062,673</u>
<b>Nonoperating revenues (expenses)</b>		
Interest and investment revenue	68,198	101,287
Interest expense	<u>(721,240)</u>	<u>(774,992)</u>
Total nonoperating revenue (expense)	<u>(653,042)</u>	<u>(673,705)</u>
Income before capital contributions and transfers	922,976	388,968
Capital contributions		
Electric, water and sewer connection fees	110,763	70,388
Developer contributions	60,000	32,000
Customer reimbursements - electric	63,012	30,065
Grant revenues	169,771	11,955
Transfers in (out)	<u>-</u>	<u>-</u>
<b>Change in net assets</b>	1,326,522	533,376
Total net assets-beginning	<u>27,798,372</u>	<u>27,264,996</u>
<b>TOTAL NET ASSETS-ENDING</b>	<u>\$ 29,124,894</u>	<u>\$ 27,798,372</u>

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

**CITY OF BEREA, KENTUCKY  
STATEMENT OF CASH FLOWS  
BUSINESS TYPE ACTIVITIES  
PROPRIETARY FUNDS  
for the year ended June 30, 2012**

	<b>Business Type Activities Utilities</b>	
	<b>2012</b>	<b>2011 Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 14,528,736	\$ 14,568,412
Payments to suppliers	(9,329,215)	(9,578,550)
Payments for employee services and benefits	(2,001,483)	(1,947,747)
	<u>3,198,038</u>	<u>3,042,115</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	166,040	112,758
Proceeds from long-term debt	-	100,000
Principal paid on capital debt	(1,331,898)	(1,184,600)
Purchases of capital assets	(923,722)	(1,049,937)
Purchases of construction in progress	(176,427)	(1,071,080)
Interest paid on capital debt	(720,437)	(746,595)
	<u>(2,986,444)</u>	<u>(3,839,454)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment activity (net)	(60,133)	(89,694)
Interest and dividends	69,308	109,757
	<u>9,175</u>	<u>20,063</u>
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	220,769	(777,276)
Balances-beginning of the year	2,099,251	2,876,527
	<u>\$ 2,320,020</u>	<u>\$ 2,099,251</u>
<b>BALANCES-END OF THE YEAR</b>		
<b>Reconciliation of operating income (loss) to net cash</b>		
<b>provided (used) by operating activities:</b>		
Operating income (loss)	\$ 1,576,018	\$ 1,062,673
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Depreciation and amortization expense	2,048,869	1,900,132
Change in assets and liabilities		
Receivables, net	(242,779)	(581)
Inventory	4,099	33,843
Due to/from other funds	(69,634)	68,379
Accounts payable	(91,656)	126,846
Accrued vacation, sick, & holiday	(41,792)	22,494
Accrued taxes	(7,567)	(44,807)
Other liabilities	7,518	(4,761)
Customer deposits	14,962	(122,103)
	<u>\$ 3,198,038</u>	<u>\$ 3,042,115</u>
Net cash provided by operating activities		
Supplemental disclosures of cash flow information:	-	
Noncash capital and related financing activities:		
Payables for capital items, net	\$ 28,866	\$ (42,944)
Developer contributions	\$ 60,000	\$ 32,000

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

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

**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**

**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.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

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

**B. Basis of Presentation, continued**

**Fund Financial Statements**

Fund financials 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.

**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.

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

**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

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

**B. Basis of Presentation, continued**

**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.

**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.

**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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.



**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

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

**C. Basis of Accounting, continued**

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. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

**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, and capital contributions.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

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

**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 BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

**L. Fund Balances**

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, 2012 fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	\$ -	\$ -	\$ -
Restricted:			
Law enforcement	-	40,274	40,274
Road surface repairs	-	542,002	542,002
Committed – capital additions	238,365	-	238,365
Assigned:			
Capital additions	3,334,145	-	3,334,145
Debt service	-	-	-
Other purposes	1,520,196	1085,204	2,605,400
Unassigned	<u>938,327</u>	<u>-</u>	<u>938,327</u>
Total fund balances	<u>\$ 6,031,033</u>	<u>\$ 1,667,480</u>	<u>\$ 7,698,513</u>

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**M. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through September 17, 2012, 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, 2012, have not been evaluated by the City.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

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

**N. Other Accounting Policies**

Inventory is recorded at cost.

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.

**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 \$15,907,851, and the bank balances totaled \$16,590,653. At June 30, 2012 \$17,529,307 of collateral was pledged to the City by the custodial banks.

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.

The City's investments at June 30, 2012 consist entirely of certificates of deposit with maturities of one year or less.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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 Fund	Nonmajor Funds	Governmental Funds Total
Governmental Funds:			
Taxes	\$ 83,315	\$ 174,964	\$ 258,279
Licenses, permits, billings	1,059,680	-	1,059,680
Charges for Service	6,564	-	6,564
Intergovernmental	62,302	217,274	279,576
Other	<u>2,912</u>	<u>-</u>	<u>2,912</u>
Gross receivables	1,214,773	392,238	1,607,011
Less: allowance for uncollectible	<u>(45,000)</u>	<u>-</u>	<u>(45,000)</u>
Net receivables	<u>\$ 1,169,773</u>	<u>\$ 392,238</u>	<u>\$ 1,562,011</u>
Business Type Activities:	<u>Total</u>		
Customer	\$ 2,122,006		
Grants	148,943		
Less: allowance for uncollectible	<u>-</u>		
Net receivables	<u>\$ 2,270,949</u>		

**4. CAPITAL ASSETS**

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

	July 1, 2011	Additions	Deductions	June 30, 2012
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,043,134	\$ 150,809	\$ (10,000)	\$ 4,183,943
Construction in Progress (CIP)	588,957	691,623	(593,621)	686,959
Capital assets that are depreciated:				
Buildings and Improvements	5,983,685	809,491	-	6,793,176
Land Improvements	677,330	-	-	677,330
Vehicles	3,913,589	105,012	(127,880)	3,890,721
Equipment	<u>2,234,625</u>	<u>63,576</u>	<u>(11,935)</u>	<u>2,286,266</u>
Totals	17,441,320	1,820,511	(743,436)	18,518,395
Infrastructure Assets	<u>9,831,538</u>	<u>-</u>	<u>-</u>	<u>9,831,538</u>
Total Capital Assets	<u>27,272,858</u>	<u>1,820,511</u>	<u>(743,436)</u>	<u>28,349,933</u>
Less Accumulated Depreciation:				
Buildings and Improvements	3,486,567	203,967	-	3,690,534
Land Improvements	115,744	16,929	-	132,673
Vehicles	2,347,796	236,998	(101,556)	2,483,238
Equipment	1,356,326	158,047	(11,935)	1,502,438
Infrastructure Assets	<u>1,065,145</u>	<u>326,136</u>	<u>-</u>	<u>1,391,281</u>
Totals	<u>8,371,578</u>	<u>942,077</u>	<u>(113,491)</u>	<u>9,200,164</u>
Depreciable capital assets, net	<u>\$ 18,901,280</u>	<u>\$ 878,434</u>	<u>\$ (629,945)</u>	<u>\$ 19,149,769</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**4. CAPITAL ASSETS (CONTINUED)**

	July 1, 2011	Additions	Deductions	June 30, 2012
Business-Type Activities:				
Land, Buildings and Easements	\$ 2,429,172	\$ 48,689	\$ -	\$ 2,477,861
Electric system	10,711,051	359,757	-	11,070,808
Water system	18,464,830	90,212	-	18,555,042
Plant and sewer system	27,806,580	87,500	-	27,894,080
Vehicle and equipment	1,167,703	435,042	-	1,602,745
Construction in Progress	<u>220,413</u>	<u>176,427</u>	-	<u>396,840</u>
Total	<u>60,799,749</u>	<u>1,197,627</u>	-	<u>61,997,376</u>
Less Accumulated Depreciation	<u>17,937,581</u>	<u>2,030,396</u>	-	<u>19,967,977</u>
Capital Assets, Net	<u>\$ 42,862,168</u>	<u>\$ (832,769)</u>	\$ -	<u>\$ 42,029,399</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 83,498
Police	129,415
Fire	120,022
Public Works	323,716
Codes enforcement	1,964
Parks and recreation	229,650
Sanitation	12,168
GIS/Surveying	20,604
Tourism	<u>21,040</u>
Total Depreciation Expense	<u>\$ 942,077</u>

**5. CONSTRUCTION IN PROGRESS**

The City is in progress on the following projects:

	June 30, 2012
Business-Type Activities	
Exit 76 Water Line	\$ 56,226
Lagoon Expansion	2,434
Prince Royal Drive Line Replacement	67,753
Pump Station	116,217
Terrill Branch Extension	104,866
Reservoir - Raw Water Source Study	<u>49,344</u>
Total construction in progress	<u>\$ 396,840</u>
Governmental Activities	
Storm Water Plan	\$ 65,092
Bratcher Lane	107,046
Shared Use Path - "Indian Fort Trail"	298,904
Water Street Drainage	12,230
Software Implementation	185,840
Stadium Renovation	<u>17,847</u>
Total construction in progress	<u>\$ 686,959</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

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

	June 30, 2011	Additions	Deletions	June 30, 2012
Revenue bonds payable	\$ 15,610,000	\$ -	\$ 865,000	\$ 14,745,000
Notes payable	8,730,458	-	466,898	8,263,560
Compensated absences	<u>170,806</u>	<u>21,583</u>	<u>-</u>	<u>192,389</u>
Total debt outstanding	<u>\$ 24,511,264</u>	<u>\$ 21,583</u>	<u>\$ 1,331,898</u>	<u>\$ 23,200,949</u>
Less current portion of:				
Revenue bonds				\$ 890,000
Notes payable				<u>471,579</u>
Current portion				<u>1,361,579</u>
Total long term obligation				<u>\$ 21,839,370</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 matured January 1, 2010. Interest on the Series 2005-A Bonds 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, 2012, the City had a balance of \$3,604,944 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, 2012 the City had a balance of \$4,658,616 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, 2012:

	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
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>\$ 23,008,560</u>	<u>\$ 5,367,447</u>	<u>\$ 167,402</u>	<u>\$ 28,543,409</u>

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

**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, 2012, the total long term liability for compensated absences was \$192,389 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, 2012, the depreciation fund had a balance of \$1,259,996.

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, 2012, the debt service fund had a balance of \$738,663.

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

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

	June 30, 2011	Additions	Deletions	June 30, 2012
Leases payable	\$ 4,136	\$ 7,295	\$ 2,615	\$ 8,816
Park bonds payable	2,545,000	-	660,000	1,885,000
Note payable	247,862	120,000	147,862	220,000
Compensated absences	<u>513,760</u>	<u>133,812</u>	<u>-</u>	<u>647,572</u>
Total debt outstanding	<u>\$ 3,310,758</u>	<u>\$ 261,107</u>	<u>\$ 810,477</u>	<u>\$ 2,761,388</u>
Less current portion of:				
Leases payable				\$ 3,391
Park bonds				680,000
Note payable				<u>120,000</u>
Current portion				<u>803,391</u>
Total long term obligation				<u>\$ 1,957,997</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:



**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

LEASES PAYABLE, continued

1. **Office Equipment Rental Company Lease (Tourism)-** 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 \$2,298 at June 30, 2012 to be paid out October 2013.

<b>June 30,</b>	
2013	\$ 1,838
2014	<u>460</u>
Total lease payable	<u>\$ 2,298</u>

2. **Office Equipment Rental Company Lease (Police) –** The City entered into a capital lease agreement for a copier for the police department on January 9, 2012. The term of the lease is for 60 months with monthly payments of \$129. The outstanding balance is \$6,518 at June 30, 2012 to be paid out January 2017.

<b>June 30,</b>	
2013	\$ 1,553
2014	1,553
2015	1,553
2016	1,553
2017	<u>306</u>
Total lease payable	<u>\$ 6,518</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%.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

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

Industrial Park Note Payable

During the year, the City of Berea renewed its note payable with Peoples Bank and Trust Company of Madison County that was originally set to mature June 4, 2012. The renewed note accrues interest at 3.5%. The note is payable in one payment of all outstanding principal plus all accrued unpaid interest on June 4, 2013. The City makes regular quarterly payments of all accrued unpaid interest. At June 30, 2012 the balance outstanding on the note was \$100,000.

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

		<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$	803,391	\$ 51,685	\$ 855,076
2014		327,014	37,667	364,681
2015		236,553	27,380	263,933
2016		241,553	20,135	261,688
2017-21		<u>505,305</u>	<u>16,623</u>	<u>521,928</u>
Total	\$	<u>2,113,816</u>	\$ <u>153,490</u>	\$ <u>2,267,306</u>

**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, 2012, the total liability for long term compensated absences was \$647,572 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, 2012 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.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

**9. RETIREMENT PLAN (CONTINUED)**

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, 2012, 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 Statue 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, 2012, participating employers contributed 18.96% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 1,206,400	100%
2011	\$ 1,075,700	100%
2010	\$ 1,032,600	100%

**457(b) and 401(k)**

In addition, the City of Berea offers a 457(b) and a 401(k) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 37 participants in the 457(b) plan and 11 participants in the 401(k) 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 \$101,865 to the 457(b) plan and 29,897 to the 401(k) plan.

**10. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2012 were levied in November 2011 on the assessed property located in the City of Berea as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<b>Description</b>	<b>Date Per K.R.S. 134.015</b>
1. Due date for payment, 2% discount	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.

**CITY OF BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012**

---

**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 2012 financial statement presentation.

**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 \$60,000 and was added to the Utilities' capital assets. Also, during the year, the BMU received connection fees totaling \$110,763 from customers connecting to the system, as well as \$63,012 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.

**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.

**SUPPLEMENTAL INFORMATION**

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>MUNICIPAL TAXATION</b>				
General property taxes	\$ 540,000	\$ 540,000	\$ 596,383	\$ 56,383
State assessment property taxes	8,600	8,600	16,261	7,661
In lieu of property tax	9,000	9,000	21,426	12,426
Delinquent property taxes	7,000	5,000	18,878	13,878
Bank deposit taxes	58,600	58,600	58,671	71
Motor vehicle taxes	35,000	35,000	42,775	7,775
Penalties and interest	3,000	3,000	6,093	3,093
	<u>661,200</u>	<u>659,200</u>	<u>760,487</u>	<u>101,287</u>
<b>LICENSES, PERMITS, BILLINGS</b>				
Occupational license fees				
Insurance	600,000	600,000	830,344	230,344
Employee withholding	4,100,000	4,300,000	5,340,974	1,040,974
Net profits	250,000	250,000	646,752	396,752
Individual	14,000	14,000	16,008	2,008
Business	1,000	1,000	1,040	40
Regulated licenses	4,000	4,000	12,946	8,946
Penalty and interest	200	200	-	(200)
Utility franchise fees	902,000	912,000	1,019,074	107,074
Building permits	42,000	47,000	55,698	8,698
Electric permits	35,000	35,000	54,703	19,703
	<u>5,948,200</u>	<u>6,163,200</u>	<u>7,977,539</u>	<u>1,814,339</u>
<b>CHARGES FOR SERVICE</b>				
Court costs & fees	43,000	40,000	49,547	9,547
Accident reports	1,800	1,800	2,409	609
Burning permits	200	200	15	(185)
Street cut permits	1,000	1,000	575	(425)
Codes - plat review fee	4,500	5,000	7,676	2,676
GIS mapping fees	100	100	66	(34)
Police special services	1,350	1,350	2,804	1,454
Demolition cleanup	2,000	2,000	1,067	(933)
Parks concessions	15,000	15,000	20,294	5,294
Pool concessions	27,000	27,000	29,272	2,272
Swimming pool fees	50,000	50,000	76,178	26,178
Softball fees	-	-	1,462	1,462
Miscellaneous	2,900	2,900	2,071	(829)
	<u>148,850</u>	<u>146,350</u>	<u>193,436</u>	<u>47,086</u>

**CITY OF BERA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>FINES AND FORFEITS</b>				
Fingerprint charges	\$ 800	\$ 800	\$ 900	\$ 100
Court restitution	400	400	351	(49)
Parking fines	<u>18,000</u>	<u>18,000</u>	<u>6,331</u>	<u>(11,669)</u>
	<u>19,200</u>	<u>19,200</u>	<u>7,582</u>	<u>(11,618)</u>
<b>INTERGOVERNMENTAL REVENUES</b>				
County school-police contract	70,000	70,000	73,344	3,344
Madison County grants	56,125	56,125	53,000	(3,125)
Other grants	29,800	62,800	67,493	4,693
Police incentive pay	89,900	89,900	106,821	16,921
Fire incentive pay	<u>66,000</u>	<u>66,000</u>	<u>69,096</u>	<u>3,096</u>
	<u>311,825</u>	<u>344,825</u>	<u>369,754</u>	<u>24,929</u>
<b>OTHER REVENUE</b>				
Rental income	55,600	55,600	54,950	(650)
Interest income	46,200	41,200	43,149	1,949
Insurance proceeds	-	20,302	24,309	4,007
Miscellaneous	<u>159,400</u>	<u>9,400</u>	<u>12,224</u>	<u>2,824</u>
	<u>261,200</u>	<u>126,502</u>	<u>134,632</u>	<u>8,130</u>
<b>TOTAL REVENUE</b>	<u>\$ 7,350,475</u>	<u>\$ 7,459,277</u>	<u>\$ 9,443,430</u>	<u>\$ 1,984,153</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>ADMINISTRATION</b>				
Administration				
Personnel	\$ 266,400	\$ 276,748	\$ 254,114	\$ (22,634)
Commodities	26,000	24,600	18,806	(5,794)
Contractual	38,700	39,600	39,124	(476)
City Council				
Personnel	56,840	56,840	54,471	(2,369)
Contractual	245,840	250,717	214,332	(36,385)
Finance Office				
Personnel	271,500	271,500	253,132	(18,368)
Commodities	28,600	24,600	12,103	(12,497)
Contractual	125,600	112,900	93,909	(18,991)
Building Maintenance				
Personnel	32,865	32,365	26,322	(6,043)
Commodities	17,500	17,500	14,666	(2,834)
Contractual	51,700	51,400	46,049	(5,351)
Building Maintenance-Annex				
Personnel	19,901	15,716	13,454	(2,262)
Contractual	25,400	42,400	41,666	(734)
General Services				
Contractual	369,180	389,918	393,623	3,705
Total Administration	<u>1,576,026</u>	<u>1,606,804</u>	<u>1,475,771</u>	<u>(131,033)</u>
<b>POLICE</b>				
Administration				
Personnel	246,392	246,392	221,341	(25,051)
Commodities	24,100	24,150	14,083	(10,067)
Contractual	71,410	66,410	45,652	(20,758)
Police Patrol				
Personnel	1,825,741	1,855,082	1,752,375	(102,707)
Commodities	184,000	212,300	222,170	9,870
Contractual	28,400	28,400	34,875	6,475
Police Training				
Commodities	10,800	10,800	11,763	963
Contractual	17,750	17,750	11,962	(5,788)
Total Police Department	<u>2,408,593</u>	<u>2,461,284</u>	<u>2,314,221</u>	<u>(147,063)</u>



**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>FIRE</b>				
Administration				
Personnel	\$ 80,658	\$ 85,734	\$ 77,476	\$ (8,258)
Commodities	6,897	6,937	2,931	(4,006)
Contractual	6,100	6,100	238	(5,862)
Fire Suppression				
Personnel	1,057,121	1,057,121	986,583	(70,538)
Commodities	117,650	118,370	60,296	(58,074)
Contractual	61,000	61,000	31,088	(29,912)
Fire Training				
Commodities	11,800	11,800	2,608	(9,192)
Contractual	<u>8,000</u>	<u>8,000</u>	<u>2,417</u>	<u>(5,583)</u>
Total Fire Department	<u>1,349,226</u>	<u>1,355,062</u>	<u>1,163,637</u>	<u>(191,425)</u>
<b>STREETS</b>				
Personnel	797,700	797,700	698,822	(98,878)
Commodities	430,350	412,000	312,048	(99,952)
Contractual services	<u>278,900</u>	<u>280,900</u>	<u>277,388</u>	<u>(3,512)</u>
Total Street Department	<u>1,506,950</u>	<u>1,490,600</u>	<u>1,288,258</u>	<u>(202,342)</u>
<b>CODES ENFORCEMENT</b>				
Personnel	289,604	269,700	250,055	(19,645)
Commodities	18,300	30,600	17,102	(13,498)
Contractual	<u>111,225</u>	<u>97,325</u>	<u>66,660</u>	<u>(30,665)</u>
Total Codes Enforcement	<u>419,129</u>	<u>397,625</u>	<u>333,817</u>	<u>(63,808)</u>
<b>PARKS AND RECREATION</b>				
Parks and Recreation				
Personnel	256,007	267,091	251,392	(15,699)
Commodities	138,400	128,900	59,711	(69,189)
Contractual services	171,215	171,015	136,302	(34,713)
Pool				
Personnel	102,300	93,800	77,166	(16,634)
Commodities	88,650	87,650	72,477	(15,173)
Contractual services	46,450	42,150	30,120	(12,030)
Intergenerational Center				
Contractual services	<u>39,200</u>	<u>39,200</u>	<u>30,959</u>	<u>(8,241)</u>
Total Parks and Recreation	<u>842,222</u>	<u>829,806</u>	<u>658,127</u>	<u>(171,679)</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>GIS/SURVEYING</b>				
GIS/Land Surveying				
Personnel	\$ 119,164	\$ 119,164	\$ 112,529	\$ (6,635)
Commodities	16,700	15,500	10,555	(4,945)
Contractual services	<u>26,200</u>	<u>27,200</u>	<u>7,762</u>	<u>(19,438)</u>
Total GIS/Surveying	<u>162,064</u>	<u>161,864</u>	<u>130,846</u>	<u>(31,018)</u>
<b>BUSINESS DEVELOPMENT</b>				
Business Development				
Personnel	68,580	70,700	66,698	(4,002)
Commodities	8,500	6,395	5,309	(1,086)
Contractual services	<u>12,300</u>	<u>10,300</u>	<u>1,806</u>	<u>(8,494)</u>
Total Business Development	<u>89,380</u>	<u>87,395</u>	<u>73,813</u>	<u>(13,582)</u>
<b>CAPITAL OUTLAY</b>				
Administration	500,000	200,000	209,223	9,223
Police	165,000	184,000	58,806	(125,194)
Fire	110,500	106,000	9,151	(96,849)
Streets	129,100	142,100	22,257	(119,843)
Codes enforcement	25,000	-	-	-
Business development	24,711	24,711	-	(24,711)
Parks and recreation	191,300	117,800	24,576	(93,224)
GIS/Surveying	<u>35,000</u>	<u>35,949</u>	<u>33,949</u>	<u>(2,000)</u>
Total Capital Outlay	<u>1,180,611</u>	<u>810,560</u>	<u>357,962</u>	<u>(452,598)</u>
<b>DEBT SERVICE</b>	<u>728,911</u>	<u>728,911</u>	<u>729,687</u>	<u>776</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 10,263,112</u>	<u>\$ 9,929,911</u>	<u>\$ 8,526,139</u>	<u>\$ (1,403,772)</u>
	-	-		
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	1,000	1,000	8,250	7,250
Transfers in (out)	<u>(2,058,197)</u>	<u>(1,660,444)</u>	<u>(799,360)</u>	<u>861,084</u>
	<u>(2,057,197)</u>	<u>(1,659,444)</u>	<u>(791,110)</u>	<u>868,334</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (4,969,834)</u>	<u>\$ (4,130,078)</u>	<u>\$ 126,181</u>	<u>\$ 4,256,259</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, 2012**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>BEREA MUNICIPAL UTILITIES</b>				
Administration				
Personnel	\$ 824,471	\$ 824,471	\$ 631,821	\$ (192,650)
Commodities	92,300	93,158	60,242	(32,916)
Contractual	<u>309,700</u>	<u>312,901</u>	<u>287,081</u>	<u>(25,820)</u>
	<u>1,226,471</u>	<u>1,230,530</u>	<u>979,144</u>	<u>(251,386)</u>
Electric				
Personnel	487,664	487,664	478,208	(9,456)
Commodities	8,173,760	8,173,760	7,416,193	(757,567)
Contractual	<u>339,940</u>	<u>332,436</u>	<u>181,144</u>	<u>(151,292)</u>
	<u>9,001,364</u>	<u>8,993,860</u>	<u>8,075,545</u>	<u>(918,315)</u>
Water				
Personnel	489,575	447,555	446,667	(888)
Commodities	230,000	233,612	147,999	(85,613)
Contractual	<u>451,450</u>	<u>452,950</u>	<u>544,831</u>	<u>91,881</u>
	<u>1,171,025</u>	<u>1,134,117</u>	<u>1,139,497</u>	<u>5,380</u>
Sewer				
Personnel	445,942	432,522	395,428	(37,094)
Commodities	91,300	91,399	77,918	(13,481)
Contractual	<u>450,300</u>	<u>513,681</u>	<u>456,616</u>	<u>(57,065)</u>
	<u>987,542</u>	<u>1,037,602</u>	<u>929,962</u>	<u>(107,640)</u>
Total Expenses	<u>\$ 12,386,402</u>	<u>\$ 12,396,109</u>	<u>\$ 11,124,148</u>	<u>\$ (1,271,961)</u>

**CITY OF BEREA, KENTUCKY  
COMBINING BALANCE SHEET  
ALL NONMAJOR FUNDS  
June 30, 2012**

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2012 Total	2011 Total
<b>ASSETS</b>															
Cash and cash equivalents	\$ 437,528	\$ 101,116	\$ 2,702	\$ 5,200	\$ -	\$ 40,274	\$ -	\$ -	\$ -	\$ 3,285	\$ -	\$ 14,254	7,686	\$ 612,045	\$ 516,520
Investments	-	502,781	252,389	-	-	-	-	-	-	-	-	-	-	755,170	852,214
Accounts receivable	104,474	174,964	-	15,247	173	-	-	-	-	57,956	-	-	39,424	392,238	274,458
Interest receivable	-	104	435	-	-	-	-	-	-	-	-	-	-	539	178
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,141
Due from other fund	-	321	-	-	-	-	-	-	-	63,012	-	106,898	-	170,231	43,864
<b>Total assets</b>	<b>\$ 542,002</b>	<b>\$ 779,286</b>	<b>\$ 255,526</b>	<b>\$ 20,447</b>	<b>\$ 173</b>	<b>\$ 40,274</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 124,253</b>	<b>\$ -</b>	<b>\$ 121,152</b>	<b>\$ 47,110</b>	<b>\$ 1,930,223</b>	<b>\$ 1,733,375</b>
<b>LIABILITIES AND FUND BALANCE</b>															
<b>Liabilities</b>															
Accounts payable	\$ -	\$ 21,201	\$ -	\$ 15,247	\$ 173	\$ -	\$ -	\$ -	\$ -	\$ 63,012	\$ -	\$ 106,898	\$ 46,824	\$ 253,355	\$ 160,462
Accrued payroll	-	4,575	-	-	-	-	-	-	-	-	-	-	-	4,575	3,914
Compensated absences	-	579	-	-	-	-	-	-	-	-	-	-	-	579	12,052
Due to other fund	-	4,234	-	-	-	-	-	-	-	-	-	-	-	4,234	9,237
<b>Total liabilities</b>	<b>-</b>	<b>30,589</b>	<b>-</b>	<b>15,247</b>	<b>173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,012</b>	<b>-</b>	<b>106,898</b>	<b>46,824</b>	<b>262,743</b>	<b>185,665</b>
<b>Fund balance</b>	<b>542,002</b>	<b>748,697</b>	<b>255,526</b>	<b>5,200</b>	<b>-</b>	<b>40,274</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>61,241</b>	<b>-</b>	<b>14,254</b>	<b>286</b>	<b>1,667,480</b>	<b>1,547,710</b>
<b>Total liabilities and fund balances</b>	<b>\$ 542,002</b>	<b>\$ 779,286</b>	<b>\$ 255,526</b>	<b>\$ 20,447</b>	<b>\$ 173</b>	<b>\$ 40,274</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 124,253</b>	<b>\$ -</b>	<b>\$ 121,152</b>	<b>\$ 47,110</b>	<b>\$ 1,930,223</b>	<b>\$ 1,733,375</b>

**CITY OF BEREA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2012**

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2012 Total	2011 Total
<b>REVENUES</b>															
Municipal Taxation	\$ -	\$ 1,013,429	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,013,429	\$ 958,235
Intergovernmental revenues	390,851	-	-	27,430	173	2,652	-	-	-	57,956	-	-	128,233	607,295	358,015
Charges for services	-	41,827	-	-	-	-	-	-	-	-	-	-	-	41,827	5,981
Other revenues	322	7,517	12,539	7	-	47	-	27	-	13	-	-	4	20,476	32,960
<b>Total revenues</b>	<b>391,173</b>	<b>1,062,773</b>	<b>12,539</b>	<b>27,437</b>	<b>173</b>	<b>2,699</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>57,969</b>	<b>-</b>	<b>-</b>	<b>128,237</b>	<b>1,683,027</b>	<b>1,355,191</b>
<b>EXPENDITURES</b>															
<b>Current</b>															
General administration	-	-	-	-	-	-	-	-	46,141	129	-	-	-	46,270	4,709
Police department	-	-	-	-	-	1,726	-	-	-	-	-	-	-	1,726	1,552
Fire department	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street department	17,366	-	-	991	8,408	-	-	-	-	9,071	-	321,496	-	357,332	356,367
Parks and recreation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,990
Tourism	-	892,972	-	-	-	-	-	-	-	19,972	-	-	-	912,944	772,508
Industrial Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,349
State Contracts	-	-	-	27,430	-	-	-	-	-	-	-	-	128,233	155,663	107,972
Capital outlay	-	256,849	64,954	-	-	-	-	-	-	539,829	-	-	-	861,632	658,830
Debt service	-	1,838	155,191	-	-	-	21	-	-	-	-	-	-	157,050	174,953
<b>Total expenditures</b>	<b>17,366</b>	<b>1,151,659</b>	<b>220,145</b>	<b>28,421</b>	<b>8,408</b>	<b>1,726</b>	<b>21</b>	<b>-</b>	<b>46,141</b>	<b>569,001</b>	<b>-</b>	<b>321,496</b>	<b>128,233</b>	<b>2,492,617</b>	<b>2,086,230</b>
Excess revenues over (under) expenditures before other sources (uses)	373,807	(88,886)	(207,606)	(984)	(8,235)	973	(21)	27	(46,141)	(511,032)	-	(321,496)	4	(809,590)	(731,039)
<b>Other financing sources</b>															
Note proceeds	-	-	-	-	-	-	-	-	-	120,000	-	-	-	120,000	-
Proceeds from sale of assets	-	-	10,000	-	-	-	-	-	-	-	-	-	-	10,000	20,000
Transfers from other funds	-	-	92,218	-	8,235	-	-	(32,773)	-	451,533	(13,824)	293,971	-	799,360	500,447
<b>Excess revenues and other sources over (under) expenditures</b>	<b>373,807</b>	<b>(88,886)</b>	<b>(105,388)</b>	<b>(984)</b>	<b>-</b>	<b>973</b>	<b>(21)</b>	<b>(32,746)</b>	<b>(46,141)</b>	<b>60,501</b>	<b>(13,824)</b>	<b>(27,525)</b>	<b>4</b>	<b>119,770</b>	<b>(210,592)</b>
Fund balances, July 1, 2011	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
<b>FUND BALANCES- JUNE 30, 2012</b>	<b>\$ 542,002</b>	<b>\$ 748,697</b>	<b>\$ 255,526</b>	<b>\$ 5,200</b>	<b>\$ -</b>	<b>\$ 40,274</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 61,241</b>	<b>\$ -</b>	<b>\$ 14,254</b>	<b>\$ 286</b>	<b>\$ 1,667,480</b>	<b>\$ 1,547,710</b>

**CITY OF BERA, 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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 17, 2012. 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

Management of the City is responsible for establishing and maintaining effective 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 17, 2012