

CITY OF BEREA
Berea, Kentucky



FINANCIAL STATEMENTS
June 30, 2008

CONTENTS

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Management's Discussion and Analysis..... | 1-9 |
| Independent Auditors' Report | 10 |
| Government Wide Financial Statements | |
| Statement of Net Assets | 11 |
| Statement of Activities | 12 |
| Fund Financial Statements | |
| Balance Sheet-Governmental Funds..... | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds | 14 |
| Balance Sheet - Proprietary Funds..... | 15 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund..... | 16 |
| Statement of Cash Flows - Proprietary Funds.. | 17 |
| Notes to Financial Statements | 18-31 |
| Supplementary Information | |
| Required Supplementary Information-Budgets and Actual | 32-37 |
| Combining Balance Sheet – Nonmajor Governmental Funds | 38 |
| Combining Statement of Revenues, Expenditures and Changes in Net Assets – Nonmajor Governmental Funds | 39 |
| 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 | 40-41 |

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, 2008. Please read the following in conjunction with the auditors' report on page 10 and the City's financial statements, which begin to appear on page 11.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

The City has two kinds of funds:

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

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

NET ASSETS

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

Table A-1

| | | | 2008 | 2007 |
|-----------------------------|----------------------|----------------------|----------------------|---------------------|
| | Governmental | Business-type | Primary | Primary |
| | Activities | Activities | Government | Government |
| Current and Other Assets | \$ 12,318,151 | \$ 13,439,335 | \$ 25,757,486 | \$ 20,930,491 |
| Capital Assets | <u>13,545,352</u> | <u>34,858,451</u> | <u>48,403,803</u> | <u>47,275,133</u> |
| Total Assets | <u>25,863,503</u> | <u>48,297,786</u> | <u>74,161,289</u> | <u>68,205,624</u> |
| Long-Term Outstanding | 4,790,463 | 21,564,064 | 26,354,527 | 24,481,278 |
| Current Liabilities | <u>2,180,257</u> | <u>3,225,905</u> | <u>5,406,162</u> | <u>5,628,698</u> |
| Total Liabilities | <u>6,970,720</u> | <u>24,789,969</u> | <u>31,760,689</u> | <u>30,109,976</u> |
| Net Assets: | | | | |
| Invested in Capital Assets, | | | | |
| net of debt | 7,643,286 | 12,287,664 | 19,930,950 | 19,830,847 |
| Restricted | 1,382,336 | 377,233 | 1,759,569 | 1,296,538 |
| Unrestricted | <u>9,867,161</u> | <u>10,842,920</u> | <u>20,710,081</u> | <u>16,968,263</u> |
| Total Net Assets | <u>\$ 18,892,783</u> | <u>\$ 23,507,817</u> | <u>\$ 42,400,600</u> | <u>\$38,095,648</u> |

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

Table A-2

Condensed Statement of Activities

| | <u>Governmental</u> | <u>Business-type</u> | <u>2008</u> | <u>2007</u> |
|---------------------------------------------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> | <u>Total</u> |
| | | | <u>Primary</u> | <u>Primary</u> |
| | | | <u>Government</u> | <u>Government</u> |
| Revenues | | | | |
| <u>Program Revenues</u> | | | | |
| Charges for Service | \$ 231,908 | \$ 12,758,547 | \$ 12,990,455 | \$12,690,653 |
| Operating Grants & Contributions | 1,024,929 | - | 1,024,929 | 800,186 |
| Capital Grants & Contributions | 566,668 | - | 566,668 | 1,090,708 |
| <u>General Revenue</u> | | | | |
| Taxes | 1,574,138 | - | 1,574,138 | 365,244 |
| License Fees | 6,787,719 | - | 6,787,719 | 6,193,220 |
| Permits | 94,947 | - | 94,947 | 79,337 |
| Grants & Contributions Not Restricted to Specific Programs | - | - | - | - |
| Investment Earnings | 276,638 | 355,691 | 632,239 | 622,054 |
| Other Revenues | <u>196,200</u> | <u>-</u> | <u>196,200</u> | <u>123,914</u> |
| Total Revenue | <u>8,929,642</u> | <u>355,691</u> | <u>9,285,333</u> | <u>7,383,769</u> |
| Program Expenses | | | | |
| General Government | 1,559,821 | - | 1,559,821 | 1,225,457 |
| Public safety-Police | 2,160,683 | - | 2,160,683 | 2,228,661 |
| Public safety-Fire | 1,298,162 | - | 1,298,162 | 1,217,318 |
| Public works | 1,457,637 | - | 1,457,637 | 1,741,388 |
| Codes enforcement | 304,936 | - | 304,936 | 296,422 |
| Parks and Recreation | 772,314 | - | 772,314 | 791,515 |
| Sanitation | 15,626 | - | 15,626 | 149,322 |
| GIS/Surveying | 122,883 | - | 122,883 | 111,575 |
| Business Development | 64,427 | - | 64,427 | 57,521 |
| Tourism | 598,891 | - | 598,891 | 312,516 |
| Industrial Development | 34,295 | - | 34,295 | 53,742 |
| State Contracts | 184,522 | - | 184,522 | 493,952 |
| Interest on long-term debt | 124,895 | - | 124,895 | 141,258 |
| Utilities | <u>-</u> | <u>12,152,802</u> | <u>12,152,802</u> | <u>11,824,488</u> |
| Total program expenses | <u>8,669,092</u> | <u>12,152,802</u> | <u>20,851,894</u> | <u>20,645,135</u> |
| Eliminate landfill closure Obligation | 995,421 | - | 995,421 | - |
| Loss on sale of Property | (185,570) | - | (185,570) | 514,518 |
| Transfers in(out) | <u>(51,668)</u> | <u>51,668</u> | <u>-</u> | <u>-</u> |
| Net Change In Net Assets | <u>\$ 2,815,238</u> | <u>\$ 1,489,714</u> | <u>\$ 4,304,952</u> | <u>\$ 1,834,699</u> |

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

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

GOVERNMENTAL ACTIVITIES

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

Condensed Governmental Activities – Revenues & Expenditures

| | 2008 | 2007 |
|------------------------------------------------------------------|-------------------|---------------------|
| Taxes | \$ 1,574,138 | \$ 365,244 |
| Licenses and permits | 6,882,666 | 6,272,557 |
| Intergovernmental | 1,531,597 | 1,329,372 |
| Fines & Forfeits | 5,547 | 2,293 |
| Sale of Property | - | 930,800 |
| Charges for Services | 231,908 | 266,259 |
| Other Revenues | <u>467,292</u> | <u>435,288</u> |
| Total Revenues | <u>10,693,148</u> | <u>9,601,813</u> |
| General Government | 1,493,232 | 1,238,576 |
| Public safety-Police | 2,022,686 | 1,982,187 |
| Public safety-Fire | 1,187,772 | 1,110,842 |
| Public works- Streets | 1,237,319 | 1,544,556 |
| Codes Enforcement | 295,007 | 295,533 |
| Parks and Recreation | 589,819 | 634,475 |
| Sanitation | 173 | 133,613 |
| GIS/Surveying | 112,013 | 100,705 |
| Business Development | 64,427 | 57,521 |
| Tourism | 578,284 | 302,080 |
| Industrial Development | 34,295 | 53,742 |
| State Contracts | 184,522 | 493,952 |
| Debt service | 612,264 | 655,642 |
| Capital outlay | <u>2,100,320</u> | <u>2,132,596</u> |
| Total Expenditures | <u>10,512,133</u> | <u>10,736,020</u> |
| Excess Expenditures over Revenues before other financing sources | <u>\$ 181,015</u> | <u>\$ 1,134,207</u> |

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

BUDGET HIGHLIGHTS

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

Table A-4

Condensed Governmental Activities - Revenues

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------|---------------------|---------------------|-------------------|
| Taxes | \$ 581,538 | \$ 656,138 | \$ 74,600 |
| Licenses and permits | 6,449,802 | 6,882,666 | 432,864 |
| Intergovernmental | 294,338 | 308,099 | 13,761 |
| Fines & Forfeits | 5,000 | 5,547 | 547 |
| Charges for Service | 181,900 | 231,908 | 50,008 |
| Other Revenues | <u>308,060</u> | <u>358,417</u> | <u>50,357</u> |
| Total Revenues | <u>\$ 7,820,638</u> | <u>\$ 8,442,775</u> | <u>\$ 622,137</u> |

Table A-5

Condensed Governmental Activities – Expenditures

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------|---------------------|---------------------|---------------------|
| General Government | \$ 1,522,560 | \$ 1,479,644 | \$ (42,916) |
| Public safety-Police | 2,051,446 | 2,020,906 | (30,540) |
| Public safety-Fire | 1,240,440 | 1,187,772 | (52,668) |
| Public works-Streets | 1,071,713 | 1,084,495 | 12,782 |
| Codes Enforcement | 296,475 | 295,007 | (1,468) |
| Parks and Recreation | 633,348 | 563,988 | (69,360) |
| Sanitation | - | 173 | 173 |
| GIS/Surveying | 130,590 | 112,013 | (18,577) |
| Business Development | 72,620 | 64,427 | (8,193) |
| Capital Outlay | 793,805 | 419,386 | (374,419) |
| Debt service | <u>-</u> | <u>6,869</u> | <u>6,869</u> |
| | <u>\$ 7,812,997</u> | <u>\$ 7,234,680</u> | <u>\$ (578,317)</u> |

The City budgeted for a total of \$7,820,638 in revenues for 2007-2008, but ended up having revenues of \$8,442,775. In other words, the City received 108 percent of all budgeted revenues. A total of \$7,812,997 was budgeted for expenses, but expenditures only totaled \$7,234,680 at the end of 2008. The City was under budget on the expenses by more than 7 percent.

CAPITAL ASSETS

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

Table A-6

| Capital Assets at Year End Without Depreciation | Governmental | Business-type | 2008 | 2007 |
|-------------------------------------------------|----------------------|----------------------|--------------------------------|--------------------------------|
| | Activities | Activities | Total Primary Government | Total Primary Government |
| Land | \$ 4,052,134 | \$ 262,284 | \$ 4,314,418 | \$ 4,054,575 |
| Land Improvements | 677,330 | - | 677,330 | 124,321 |
| Construction in Progress | 1,042,263 | 1,207,896 | 2,250,159 | 1,507,534 |
| Infrastructure | 2,837,020 | - | 2,837,020 | 2,289,611 |
| Buildings | 5,655,237 | 1,659,841 | 7,315,078 | 6,899,566 |
| Vehicles | 3,434,503 | 433,058 | 3,867,561 | 3,580,597 |
| Equipment | 1,822,208 | 524,502 | 2,346,710 | 2,778,920 |
| Plant & Sewer System | - | 25,692,618 | 25,692,618 | 25,326,406 |
| Electric system | - | 9,738,268 | 9,738,268 | 9,580,342 |
| Water system | - | 8,219,050 | 8,219,050 | 8,193,216 |
| Total Capital Assets | <u>\$ 19,520,695</u> | <u>\$ 47,737,517</u> | <u>\$ 67,258,212</u> | <u>\$ 64,335,088</u> |

DEBT

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

| <u>Debt Outstanding at Year End</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> | 2008 <u>Total Primary Government</u> | 2007 <u>Total Primary Government</u> |
|--------------------------------------------|-------------------------------------------|--------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|
| Leases | \$ 16,067 | \$ - | \$ 16,067 | \$ 11,001 |
| Bonds Payable | 4,410,000 | 18,025,000 | 22,435,000 | 19,985,000 |
| Loans Payable | 972,862 | 4,545,787 | 5,518,649 | 6,048,552 |
| Landfill Closure | - | - | - | 995,421 |
| Compensated Absences | <u>437,220</u> | <u>-</u> | <u>437,220</u> | <u>404,312</u> |
| Total Debt Outstanding | <u>\$ 5,836,149</u> | <u>\$ 22,570,787</u> | <u>\$ 28,406,936</u> | <u>\$27,444,286</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

As in past years, the Mayor and City Council considered many factors and outside economic pressures when setting the budget for fiscal year 2007-2008. One of the most obvious is the compensation of employees, including the offered benefit's package. The current year's budget offers a reduction in health benefits (higher co-pays) while netting a higher cost to the employees and to the City. Hourly pay rates for the police, fire, and streets were addressed in last year's budget while this year's budget resulted in a three percent increase upon review of each employee. A number of cuts were made in the 2007-2008 budget including support for charitable organizations, a reduction in capital projects, and the removal of the much anticipated recreational park.

Keeping the future financial strength of the City in mind and the need to stay progressive the Mayor and Council increased the property tax from three cents per one hundred dollars of value to ten cents. An insurance tax of six percent was passed. All insurances with the exception of health insurance are subject to the tax. A three percent restaurant tax was placed on all prepared foods. This money is to be used for tourism and the marketing of the City of Berea.

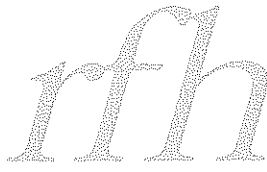
Both the cuts in budgetary items and the increase in the cities revenue streams shows the willingness and professionalism to maintain the fiscal strength of the City as is evident in this audit.

UTILITIES

The Utilities Department continued its planning efforts in all divisions. The electric division solicited bids for a power circuit breaker and structural steel and will be requesting bids for installation of these as a part of the Lewis Street substation upgrade. The water division prepared plans for the upgrade of the raw water transmission system and final drawings for the water treatment plant project. A feasibility study was completed for the Berea/Richmond water main interconnect project that would supply potable water in times of emergency. The sewer division continued work on the Hwy 1016/Terrill Branch sewer extension and had to go back to the drawing board for the US 25 North sewer extension project due to the Stoney Creek development requiring a much larger station and force main than originally designed. Water and sewer projects completed by developers and accepted by the City as contributed capital included Homestead Estates, Calico Place, Lorraine Woods, Sugarville, and Bush Bottoms. Utilities Administration continues to enhance its software programming by implementing a combined work order/inventory control system and bar coding customer's bills for more accurate posting of payments.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

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

Mayor and the City Council
City of Berea
Berea, Kentucky

Marc T. Ray, CPA-ABV

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

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

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

The management's discussion and analysis and budgetary comparison information on pages 1 through 9 and 32 through 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with **Government Auditing Standards**, we have also issued a report dated October 1, 2008, on our consideration of the City of Berea's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Berea, Kentucky, basic financial statements. The supplemental schedules on pages 38 and 39 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
October 1, 2008

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CITY OF BEREA, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2008

| | Primary Government | | | 2007 Total |
|------------------------------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 10,569,581 | \$ 770,965 | \$ 11,340,546 | \$ 7,709,192 |
| Investments | - | 7,735,000 | 7,735,000 | 6,485,000 |
| Receivables (net) | 1,605,799 | 1,630,254 | 3,236,053 | 2,874,263 |
| Interest receivable | 142,771 | 114,801 | 257,572 | 299,308 |
| Internal balances | - | 224,699 | 224,699 | 116,056 |
| Total current assets | <u>12,318,151</u> | <u>10,475,719</u> | <u>22,793,870</u> | <u>17,483,819</u> |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | - | 1,931,505 | 1,931,505 | 2,445,710 |
| Inventory | - | 551,599 | 551,599 | 493,372 |
| Capital assets (Note 3) | | | | |
| Construction in progress | 1,042,263 | 1,207,896 | 2,250,159 | 1,507,534 |
| Land | 4,052,134 | - | 4,052,134 | 3,792,291 |
| Land improvements | 612,383 | 1,733,875 | 2,346,258 | 1,879,122 |
| Depreciable infrastructure | 2,528,400 | - | 2,528,400 | 2,080,602 |
| Plant and sewer system, net | - | 15,799,862 | 15,799,862 | 16,226,426 |
| Plant and electric system, net | - | 8,298,715 | 8,298,715 | 8,564,246 |
| Plant and water system, net | - | 7,338,465 | 7,338,465 | 7,559,481 |
| Depreciable buildings, property, and equipment, net | 5,244,255 | 479,638 | 5,723,893 | 5,665,431 |
| Other assets | 65,917 | 480,512 | 546,429 | 507,590 |
| Total noncurrent assets | <u>13,545,352</u> | <u>37,822,067</u> | <u>51,367,419</u> | <u>50,721,805</u> |
| Total assets | <u>\$ 25,863,503</u> | <u>\$ 48,297,786</u> | <u>\$ 74,161,289</u> | <u>\$ 68,205,624</u> |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 588,479 | \$ 898,962 | \$ 1,487,441 | \$ 1,063,903 |
| Accrued leave payable | 139,663 | 208,251 | 347,914 | 273,114 |
| Accrued liabilities | 181,730 | 54,811 | 236,541 | 191,645 |
| Other liabilities | - | 65,879 | 65,879 | 57,178 |
| Accrued interest payable | - | 361,708 | 361,708 | 376,426 |
| Customer deposits | - | 629,571 | 629,571 | 587,368 |
| Internal balances | 224,699 | - | 224,699 | 116,056 |
| Current portion of long-term obligations (Note 5) | 1,045,686 | 1,006,723 | 2,052,409 | 2,963,008 |
| Total current liabilities | <u>2,180,257</u> | <u>3,225,905</u> | <u>5,406,162</u> | <u>5,628,698</u> |
| Noncurrent liabilities | | | | |
| Noncurrent portion of long-term obligations (Note 5) | 4,790,463 | 21,564,064 | 26,354,527 | 24,481,278 |
| Total Liabilities | <u>6,970,720</u> | <u>24,789,969</u> | <u>31,760,689</u> | <u>30,109,976</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 7,643,286 | 12,287,664 | 19,930,950 | 19,830,847 |
| Restricted for | | | | |
| Debt service | 21 | 377,233 | 377,254 | 82,183 |
| Other purposes | 1,382,315 | - | 1,382,315 | 1,211,971 |
| Unrestricted | 9,867,161 | 10,842,920 | 20,710,081 | 16,970,647 |
| Total net assets | <u>18,892,783</u> | <u>23,507,817</u> | <u>42,400,600</u> | <u>38,095,648</u> |
| Total liabilities and net assets | <u>\$ 25,863,503</u> | <u>\$ 48,297,786</u> | <u>\$ 74,161,289</u> | <u>\$ 68,205,624</u> |

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

**CITY OF BEREA, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2008**

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | 2007 Total | |
|--------------------------------------------------------------|----------------------|----------------------|------------------------------------|-------------------------------------------------|-------------------------|--------------------------|----------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-type Activities | | Total |
| Primary government | | | | | | | | |
| Governmental activities | | | | | | | | |
| General government | \$ 1,559,821 | \$ - | \$ - | \$ - | \$ (1,559,821) | \$ - | \$ (1,559,821) | \$ (1,225,457) |
| Public safety-Police | 2,160,683 | 74,559 | 185,367 | - | (1,900,757) | - | (1,900,757) | (1,955,222) |
| Public safety-Fire | 1,298,162 | 31 | 105,232 | 60,000 | (1,132,899) | - | (1,132,899) | (1,117,035) |
| Public works | 1,454,637 | 2,105 | - | 506,668 | (945,864) | - | (945,864) | (1,200,856) |
| Codes enforcement | 304,936 | 9,882 | - | - | (295,054) | - | (295,054) | (288,492) |
| Parks and recreation | 772,314 | 145,230 | 17,500 | - | (609,584) | - | (609,584) | (613,629) |
| Sanitation | 15,626 | - | - | - | (15,626) | - | (15,626) | (149,322) |
| GIS/Surveying | 122,883 | 101 | - | - | (122,782) | - | (122,782) | (111,466) |
| Business development | 64,427 | - | - | - | (64,427) | - | (64,427) | (57,521) |
| Tourism | 598,891 | - | - | - | (598,891) | - | (598,891) | (312,516) |
| Industrial development | 34,295 | - | - | - | (34,295) | - | (34,295) | (53,742) |
| State contracts | 184,522 | - | 716,830 | - | 532,308 | - | 532,308 | 1,500 |
| Interest on long-term debt | 124,895 | - | - | - | (124,895) | - | (124,895) | (141,258) |
| Total governmental activities | <u>8,696,092</u> | <u>231,908</u> | <u>1,024,929</u> | <u>566,668</u> | <u>(6,872,587)</u> | <u>-</u> | <u>(6,872,587)</u> | <u>(7,225,016)</u> |
| Business type activities | | | | | | | | |
| Berea Municipal Utilities | <u>12,152,802</u> | <u>12,758,547</u> | <u>-</u> | <u>476,610</u> | <u>-</u> | <u>1,082,355</u> | <u>1,082,355</u> | <u>1,161,428</u> |
| Total business-type activities | <u>12,152,802</u> | <u>12,758,547</u> | <u>-</u> | <u>476,610</u> | <u>-</u> | <u>1,082,355</u> | <u>1,082,355</u> | <u>1,161,428</u> |
| Total primary government | <u>\$ 20,848,894</u> | <u>\$ 12,990,455</u> | <u>\$ 1,024,929</u> | <u>\$ 1,043,278</u> | <u>(6,872,587)</u> | <u>1,082,355</u> | <u>(5,790,232)</u> | <u>(6,063,588)</u> |
| General revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| | | | | 656,138 | - | 656,138 | 243,042 | |
| | | | | 918,000 | - | 918,000 | 122,202 | |
| License fees: | | | | | | | | |
| | | | | 956,186 | - | 956,186 | 902,612 | |
| | | | | 4,835,892 | - | 4,835,892 | 4,884,477 | |
| | | | | 671,522 | - | 671,522 | 10,647 | |
| | | | | 324,119 | - | 324,119 | 395,484 | |
| Permits: | | | | | | | | |
| | | | | 47,764 | - | 47,764 | 51,303 | |
| | | | | 47,183 | - | 47,183 | 28,034 | |
| Grants and contributions not restricted to specific programs | | | | | | | | |
| | | | | - | - | - | - | |
| | | | | 276,638 | 355,691 | 632,329 | 622,054 | |
| | | | | 196,200 | - | 196,200 | 123,914 | |
| | | | | 8,929,642 | 355,691 | 9,285,333 | 7,383,769 | |
| | | | | 995,421 | - | 995,421 | | |
| | | | | (185,570) | - | (185,570) | 514,518 | |
| | | | | (51,668) | 51,668 | - | - | |
| Change in Net Assets | | | | | | | | |
| | | | | 2,815,238 | 1,489,714 | 4,304,952 | 1,834,699 | |
| | | | | 16,077,545 | 22,018,103 | 38,095,648 | 36,260,949 | |
| NET ASSETS-ENDING | | | | | | | | |
| | | | | <u>\$ 18,892,783</u> | <u>\$ 23,507,817</u> | <u>\$ 42,400,600</u> | <u>\$ 38,095,648</u> | |

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

**CITY OF BEREA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008**

| | General | Park Improvement Fund | Other Governmental Funds | Total Governmental Funds | 2007 Total |
|--------------------------------------------|---------------------|--------------------------------------|-----------------------------------------|-----------------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 5,994,963 | \$ 3,309,286 | \$ 1,265,332 | \$ 10,569,581 | \$ 6,974,960 |
| Receivables, net | 1,126,024 | 44,339 | 435,436 | 1,605,799 | 1,131,205 |
| Interest receivable | 135,481 | - | 7,290 | 142,771 | 170,288 |
| Due from other funds | 1,120,903 | - | 2,035,295 | 3,156,198 | 2,569,385 |
| Other assets | - | 65,917 | - | 65,917 | - |
| Total assets | \$ 8,377,371 | \$ 3,419,542 | \$ 3,743,353 | \$ 15,540,266 | \$ 10,845,838 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 72,610 | \$ 44,339 | \$ 471,530 | \$ 588,479 | \$ 188,928 |
| Accrued leave payable | 139,663 | - | - | 139,663 | 119,663 |
| Accrued liabilities | 181,730 | - | - | 181,730 | 118,591 |
| Due to other funds | 1,491,410 | - | 1,889,487 | 3,380,897 | 2,685,441 |
| Total liabilities | 1,885,413 | 44,339 | 2,361,017 | 4,290,769 | 3,112,623 |
| Fund balances | | | | | |
| Unreserved, reported in: | | - | | | |
| General fund | 6,491,958 | 3,375,203 | - | 9,867,161 | 6,521,223 |
| Special revenue funds | - | - | 1,382,315 | 1,382,315 | 1,211,971 |
| Debt service funds | - | - | 21 | 21 | 21 |
| Total fund balances | 6,491,958 | 3,375,203 | 1,382,336 | 11,249,497 | 7,733,215 |
| Total liabilities and fund balances | \$ 8,377,371 | \$ 3,419,542 | \$ 3,743,353 | \$ 15,540,266 | \$ 10,845,838 |

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

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 13,479,435 | 12,243,426 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (5,836,149) | (3,899,096) |
| Net assets of governmental activities | \$ 18,892,783 | \$ 16,077,545 |

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, 2008

| | General | Park Expansion Fund | Other Governmental Funds | Total Governmental Funds | 2007 Totals |
|--------------------------------------------------------------------------------|---------------------|------------------------------------|-----------------------------------------|-----------------------------------------|------------------------|
| REVENUES | | | | | |
| Taxes | \$ 656,138 | \$ - | \$ 918,000 | \$ 1,574,138 | \$ 365,244 |
| Licenses and permits | 6,882,666 | - | - | 6,882,666 | 6,272,557 |
| Charges for services | 231,908 | - | - | 231,908 | 266,259 |
| Fines and forfeits | 5,547 | - | - | 5,547 | 2,293 |
| Intergovernmental | 308,099 | 44,339 | 1,179,159 | 1,531,597 | 1,329,372 |
| Sale of property | - | - | - | - | 930,800 |
| Other revenues | 358,417 | - | 108,875 | 467,292 | 435,288 |
| Total revenues | 8,442,775 | 44,339 | 2,206,034 | 10,693,148 | 9,601,813 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General administration | 1,479,644 | 97 | 13,491 | 1,493,232 | 1,238,576 |
| Public safety-police | 2,020,906 | - | 1,780 | 2,022,686 | 1,982,187 |
| Public safety-fire | 1,187,772 | - | - | 1,187,772 | 1,110,842 |
| Public works | 1,084,495 | - | 152,824 | 1,237,319 | 1,544,556 |
| Codes enforcement | 295,007 | - | - | 295,007 | 295,533 |
| Parks and recreation | 563,988 | - | 25,831 | 589,819 | 634,475 |
| Sanitation | 173 | - | - | 173 | 133,613 |
| GIS/Surveying | 112,013 | - | - | 112,013 | 100,705 |
| Business development | 64,427 | - | - | 64,427 | 57,521 |
| Tourism | - | - | 578,284 | 578,284 | 302,080 |
| Industrial development | - | - | 34,295 | 34,295 | 53,742 |
| State contracts | - | - | 184,522 | 184,522 | 493,952 |
| Capital outlay | 419,386 | 44,339 | 1,636,595 | 2,100,320 | 2,132,596 |
| Debt service | 6,869 | - | 605,395 | 612,264 | 655,642 |
| Total expenditures | 7,234,680 | 44,436 | 3,233,017 | 10,512,133 | 10,736,020 |
| Excess (deficiency) of revenues over expenditures | 1,208,095 | (97) | (1,026,983) | 181,015 | (1,134,207) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Note proceeds | 11,935 | 3,375,000 | - | 3,386,935 | 279,200 |
| Transfers in (out) | (1,249,295) | 300 | 1,197,327 | (51,668) | 100,749 |
| Total other financing sources and uses | (1,237,360) | 3,375,300 | 1,197,327 | 3,335,267 | 379,949 |
| Net change in fund balances | (29,265) | 3,375,203 | 170,344 | 3,516,282 | (754,258) |
| Fund balances-beginning | 6,521,223 | - | 1,211,992 | 7,733,215 | 8,487,473 |
| Fund balances-ending | \$ 6,491,958 | \$ 3,375,203 | \$ 1,382,336 | \$ 11,249,497 | \$ 7,733,215 |
| Reconciliation to government-wide change in net assets: | | | | | |
| Net change in fund balances | | | | \$ 3,516,282 | \$ (754,258) |
| add: capital outlay expenditures capitalized | | | | 2,100,320 | 2,132,596 |
| add: donated trailer | | | | 60,000 | - |
| add: debt service expenditures | | | | 612,264 | 655,642 |
| add: elimination of landfill closure obligation | | | | 995,421 | |
| less: change in sick pay which does not require current financial resources | | | | (32,911) | 44,296 |
| less: lease proceeds | | | | (11,935) | - |
| less: note proceeds | | | | (3,375,000) | (279,200) |
| less: depreciation on governmental activities assets | | | | (738,738) | (775,902) |
| less: interest on long term debt | | | | (124,895) | (141,258) |
| less: loss on disposal of property | | | | (185,570) | (418,718) |
| Change in net assets Governmental Activities | | | | \$ 2,815,238 | \$ 463,198 |

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

CITY OF BERA, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2008

| | Business Type Activities | |
|-------------------------------------------------|---------------------------------|----------------------|
| | Utilities | |
| | <u>2008</u> | <u>2007</u> |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 770,965 | \$ 734,232 |
| Investments | 7,735,000 | 6,485,000 |
| Receivables (net) | 1,630,254 | 1,743,058 |
| Interest receivable | 114,801 | 129,020 |
| Due from (to) other funds | <u>224,699</u> | <u>116,056</u> |
| Total current assets | <u>10,475,719</u> | <u>9,207,366</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 1,931,505 | 2,445,710 |
| Inventory | 551,599 | 493,372 |
| Capital assets | | |
| Construction in progress | 1,207,896 | 441,630 |
| Land, easements and buildings | 1,922,125 | 1,922,125 |
| Plant and electric equipment | 9,738,268 | 9,580,342 |
| Plant and water equipment | 8,219,050 | 8,193,216 |
| Plant and sewer equipment | 25,692,618 | 25,326,406 |
| Vehicle and equipment | 957,560 | 852,644 |
| Less accumulated depreciation | (12,879,066) | (11,284,656) |
| Other assets, (net) | <u>480,512</u> | <u>507,590</u> |
| Total noncurrent assets | <u>37,822,067</u> | <u>38,478,379</u> |
| Total assets | <u>\$ 48,297,786</u> | <u>\$ 47,685,745</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 898,962 | \$ 874,975 |
| Accrued leave payable | 208,251 | 153,451 |
| Accrued taxes | 54,811 | 73,054 |
| Other liabilities | 65,879 | 57,178 |
| Accrued interest payable | 361,708 | 376,426 |
| Customer Deposits | 629,571 | 587,368 |
| Bonds, notes, and loans payable | <u>1,006,723</u> | <u>974,403</u> |
| Total current liabilities | 3,225,905 | 3,096,855 |
| Noncurrent liabilities | | |
| Bonds, notes, and loans payable | <u>21,564,064</u> | <u>22,570,787</u> |
| Total liabilities | <u>24,789,969</u> | <u>25,667,642</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 12,287,664 | 11,486,517 |
| Restricted for debt service | 377,233 | 82,162 |
| Unrestricted | <u>10,842,920</u> | <u>10,449,424</u> |
| Total net assets | <u>23,507,817</u> | <u>22,018,103</u> |
| Total liabilities and Net Assets | <u>\$ 48,297,786</u> | <u>\$ 47,685,745</u> |

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

CITY OF BEREA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
for the year ended June 30, 2008

| | Business Type Activities | |
|-------------------------------------------|---------------------------------|----------------------|
| | Utilities | |
| | <u>2008</u> | <u>2007</u> |
| Operating revenues | | |
| Electric service | \$ 8,716,113 | \$ 8,375,467 |
| Water service | 2,293,930 | 2,312,632 |
| Sewer service | 1,690,915 | 1,679,443 |
| Other revenues | <u>57,589</u> | <u>56,852</u> |
| Total operating revenues | <u>12,758,547</u> | <u>12,424,394</u> |
| Operating expenses | | |
| Administration | 871,652 | 953,521 |
| Electric | 7,067,211 | 6,886,540 |
| Water | 990,341 | 906,672 |
| Sewer | 722,692 | 685,651 |
| Landfill | 102,253 | - |
| Depreciation and amortization | <u>1,594,410</u> | <u>1,558,164</u> |
| Total operating expenses | <u>11,348,559</u> | <u>10,990,548</u> |
| Operating income (loss) | <u>1,409,988</u> | <u>1,433,846</u> |
| Nonoperating revenues (expenses) | | |
| Interest and investment revenue | 355,691 | 310,822 |
| Interest expense | <u>(804,243)</u> | <u>(833,940)</u> |
| Total nonoperating revenue (expense) | <u>(448,552)</u> | <u>(523,118)</u> |
| Income before capital contributions | 961,436 | 910,728 |
| Capital contributions | | |
| Electric, water and sewer connection fees | 93,079 | 133,873 |
| Developer contributions | 336,112 | 276,617 |
| Customer reimbursements - electric | 41,670 | 34,801 |
| Grant revenues | 5,749 | 116,231 |
| Transfers in (out) | <u>51,668</u> | <u>(100,749)</u> |
| Change in net assets | 1,489,714 | 1,371,501 |
| Total net assets-beginning | <u>22,018,103</u> | <u>20,646,602</u> |
| TOTAL NET ASSETS-ENDING | <u>\$ 23,507,817</u> | <u>\$ 22,018,103</u> |

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

**CITY OF BEREA, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2008**

| | Business Type Activities | |
|-------------------------------------------------------------------------------------------------------|---------------------------------|----------------------------|
| | Utilities | |
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 12,895,311 | \$ 12,383,750 |
| Payments to suppliers | (8,117,243) | (7,777,811) |
| Payments for employee services and benefits | <u>(1,716,288)</u> | <u>(1,544,420)</u> |
| Net cash provided by operating activities | <u>3,061,780</u> | <u>3,061,519</u> |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Transfers to other funds | <u>51,668</u> | <u>(100,749)</u> |
| Net cash provided (used) by non-capital and related financing activities | <u>51,668</u> | <u>(100,749)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital contributions | 470,861 | 445,291 |
| Proceeds from long-term debt | - | 100,000 |
| Principal paid on capital debt | (974,403) | (944,810) |
| Grant revenue | 5,750 | 116,231 |
| Purchases of capital assets | (654,889) | (822,919) |
| Purchases of construction in progress | (766,266) | (462,452) |
| Interest paid on capital debt | <u>(777,664)</u> | <u>(855,636)</u> |
| Net cash provided (used) by capital and related financing activities | <u>(2,696,611)</u> | <u>(2,424,295)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest and dividends | <u>355,691</u> | <u>310,822</u> |
| Net cash provided by investing activities | <u>355,691</u> | <u>310,822</u> |
| Net increase (decrease) in cash and cash equivalents | 772,528 | 847,297 |
| Balances-beginning of the year | <u>9,664,942</u> | <u>8,817,645</u> |
| BALANCES-END OF THE YEAR | <u>\$ 10,437,470</u> | <u>\$ 9,664,942</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | \$ 1,409,988 | \$ 1,433,846 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization expense | 1,594,410 | 1,558,164 |
| Change in assets and liabilities | | |
| Receivables, net | 112,804 | (44,298) |
| Inventory | (58,227) | 19,282 |
| Due to/from other funds | (108,643) | (75,246) |
| Accounts and other payables | 66,190 | 237,664 |
| Accrued expenses | <u>45,258</u> | <u>(67,893)</u> |
| Net cash provided by operating activities | <u>\$ 3,061,780</u> | <u>\$ 3,061,519</u> |

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements

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

Fund Financial Statements

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

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

The following funds are used by the City of Berea:

Governmental Funds

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Funds, continued

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 received money from the hotel/motel tax and accounts for related expenditures operated by the Berea Tourism Commission.

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

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

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

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

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

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

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

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

Proprietary Funds

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

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

Government-wide Financial Statements

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

Fund Financial Statements

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

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

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

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

D. Budgeting

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other Accounting Policies

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

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

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

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

Inventory is recorded at cost.

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

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

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

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

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2. CASH AND INVESTMENTS

Under Kentucky Revised Statute 66.480 the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks. The deposits in excess of insurance coverage must be fully collateralized. At June 30, 2008 all funds of the City were substantially insured or collateralized.

The balances for cash and cash equivalents as of June 30, 2008, are as follows:

| | Governmental | Proprietary | Total |
|-----------------|---------------------|--------------------|---------------|
| Carrying amount | \$ 10,569,581 | \$ 10,437,470 | \$ 21,007,051 |
| Bank balance | 10,244,057 | 11,500,484 | 21,744,541 |
| FDIC Insurance | 600,000 | 400,000 | 1,000,000 |
| Collateral | 11,008,246 | 12,262,108 | 23,270,354 |

Investments are categorized into these three categories of credit risk:

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

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

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

3. CAPITAL ASSETS

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

| | Balance July 1, 2007 | Additions | Deductions | June 30, 2008 |
|-----------------------------------------|-------------------------|---------------------|---------------------|----------------------|
| Governmental Activities: | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 3,792,291 | \$ 259,843 | \$ - | \$ 4,052,134 |
| Construction in Progress (CIP) | 1,065,904 | 1,076,777 | 1,100,418 | 1,042,263 |
| Capital assets that are depreciated: | | | | |
| Buildings and Improvements | 5,239,725 | 415,512 | - | 5,655,237 |
| Land Improvements | 124,321 | 553,009 | - | 677,330 |
| Vehicles | 3,239,539 | 194,964 | - | 3,434,503 |
| Equipment | <u>2,267,334</u> | <u>213,222</u> | <u>658,348</u> | <u>1,822,208</u> |
| Totals | 15,729,114 | 2,713,327 | 1,758,766 | 16,683,675 |
| Infrastructure Assets | <u>2,289,611</u> | <u>547,409</u> | - | <u>2,837,020</u> |
| Total Capital Assets | <u>18,018,725</u> | <u>3,260,736</u> | <u>1,758,766</u> | <u>19,520,695</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 2,619,796 | 211,389 | - | 2,831,185 |
| Land Improvements | 24,864 | 40,083 | - | 64,947 |
| Vehicles | 1,720,428 | 249,164 | - | 1,969,592 |
| Equipment | 1,201,202 | 138,491 | 472,777 | 866,916 |
| Infrastructure Assets | <u>209,009</u> | <u>99,611</u> | - | <u>308,620</u> |
| Totals | <u>5,775,299</u> | <u>738,738</u> | <u>472,777</u> | <u>6,041,260</u> |
| Depreciable capital assets, net | <u>\$ 12,243,426</u> | <u>\$ 2,521,998</u> | <u>\$ 1,285,989</u> | <u>\$ 13,479,435</u> |
| Business-Type Activities | | | | |
| Land, Buildings and Easements | \$ 1,922,125 | \$ - | \$ - | \$ 1,922,125 |
| Electric system | 9,580,342 | 157,926 | - | 9,738,268 |
| Water system | 8,193,216 | 25,834 | - | 8,219,050 |
| Plant and sewer system | 25,326,406 | 366,212 | - | 25,692,618 |
| Vehicle and equipment | 852,644 | 104,916 | - | 957,560 |
| Construction in Progress | <u>441,630</u> | <u>766,266</u> | - | <u>1,207,896</u> |
| Total | <u>46,316,363</u> | <u>1,421,154</u> | - | <u>47,737,517</u> |
| Less Accumulated Depreciation | <u>11,284,656</u> | <u>1,594,410</u> | - | <u>12,879,066</u> |
| Capital Assets Net | <u>\$ 35,031,707</u> | <u>\$ (173,256)</u> | <u>\$ -</u> | <u>\$ 34,858,451</u> |

Depreciation Expense was charged to the Governmental functions as follows:

| | |
|----------------------------|-------------------|
| General government | \$ 33,678 |
| Police | 137,997 |
| Fire | 110,390 |
| Public Works | 217,318 |
| Codes enforcement | 9,929 |
| Parks and recreation | 182,496 |
| Sanitation | 15,453 |
| GIS/Surveying | 10,870 |
| Tourism | <u>20,607</u> |
| Total Depreciation Expense | <u>\$ 738,738</u> |

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

3. CAPITAL ASSETS (CONTINUED)

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

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

4. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT

BONDS PAYABLE

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

| | June 30, 2007 | Additions | Deletions | June 30, 2008 |
|-----------------------------|------------------|-----------|----------------|------------------|
| Series 2005-A Revenue Bonds | \$ 16,445,000 | \$ - | \$ - | \$ 16,445,000 |
| Series 2005-B Revenue Bonds | <u>2,325,000</u> | <u>-</u> | <u>745,000</u> | <u>1,580,000</u> |
| Total bonds outstanding | \$ 18,770,000 | \$ - | \$ 745,000 | \$ 18,025,000 |

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

| | Principal | Interest | Total |
|---------|---------------------|---------------------|---------------------|
| 2009 | \$ 775,000 | \$ 715,647 | \$ 1,490,647 |
| 2010 | 805,000 | 685,422 | 1,490,422 |
| 2011 | 835,000 | 654,027 | 1,489,027 |
| 2012 | 865,000 | 628,976 | 1,493,976 |
| 2013 | 890,000 | 599,784 | 1,489,784 |
| 2014-18 | 4,985,000 | 2,473,445 | 7,458,445 |
| 2019-23 | 6,070,000 | 1,387,643 | 7,457,643 |
| 2024-25 | <u>2,800,000</u> | <u>183,350</u> | <u>2,983,350</u> |
| Total | <u>\$18,025,000</u> | <u>\$ 7,328,294</u> | <u>\$25,353,294</u> |

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

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

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

Depreciation Fund – The depreciation fund shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. The City began making monthly payments of \$100,000 to the depreciation account on July 1, 2005. There are no required monthly deposits or balance to maintain in the depreciation fund account. As of June 30, 2008, the depreciation fund had a balance of \$988,218.

Debt Service Fund – The debt service fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. These monthly transfers are to be made until the fund reaches a balance of \$1,494,887. As of June 30, 2008, the debt service fund had a balance of \$377,233.

LOAN PAYABLE

On July 1, 2004, the City of Berea entered into a loan assistance agreement with the Kentucky Infrastructure Authority for a federally assisted Wastewater Revolving Loan Fund Program Fund A loan not to exceed \$5,000,000 for the improvement of the wastewater system. As of June 30, 2008, the City had a balance of \$4,775,190 on the loan. Interest payments began within six months from the first draw of funds at a rate of 1%, and full principal and interest payments commenced within one year of initiation of operation. The loan calls for a \$250,000 repairs and maintenance reserve.

| | Principal | Interest | Service Fee | Total |
|---------|---------------------|-------------------|--------------------|---------------------|
| 2009 | \$ 231,723 | \$ 44,880 | \$ 8,976 | \$ 285,579 |
| 2010 | 234,026 | 42,557 | 8,511 | 285,094 |
| 2011 | 236,372 | 40,211 | 8,042 | 284,625 |
| 2012 | 238,742 | 37,841 | 7,568 | 284,151 |
| 2013 | 241,135 | 36,648 | 6,990 | 284,773 |
| 2014-18 | 1,242,406 | 139,271 | 28,199 | 1,409,876 |
| 2019-23 | 1,305,963 | 76,974 | 15,391 | 1,398,328 |
| 2024-26 | <u>815,420</u> | <u>14,329</u> | <u>2,866</u> | <u>832,615</u> |
| Total | <u>\$ 4,545,787</u> | <u>\$ 432,711</u> | <u>\$ 86,543</u> | <u>\$ 5,065,041</u> |

5. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

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

| | June 30, 2007 | Additions | Deletions | June 30, 2008 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Leases payable | \$ 11,001 | \$ 11,935 | \$ 6,869 | \$ 16,067 |
| Park bond payable -Series 1999 | 1,215,000 | - | 180,000 | 1,035,000 |
| Park expansion - Series 2008 | - | 3,375,000 | - | 3,375,000 |
| Note payable - Industrial park | 1,273,362 | - | 300,500 | 972,862 |
| Estimated landfill expenditures | 995,421 | - | 995,421 | - |
| Accrued leave | <u>404,312</u> | <u>32,908</u> | - | <u>437,220</u> |
| Total debt outstanding | <u>\$ 3,899,096</u> | <u>\$ 3,419,843</u> | <u>\$ 1,482,790</u> | <u>\$ 5,836,149</u> |

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

5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)

LEASES PAYABLE

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

- 1) **Office Equipment Rental Company-** The City entered into a capital lease for a digital copier beginning November 3, 2004. The term of the lease is 60 months with monthly payments of \$364. The outstanding balance due is \$5,496 at June 30, 2008 to be paid out December 2009.
- 2) **Office Equipment Rental Company-** The City entered into a capital lease for a copier for the police department on March 1, 2008. The term of the lease is 36 months with monthly payments of \$341. The outstanding balance due is \$10,571 at June 30, 2008 to be paid out March 2011.

PARK BOND PAYABLE

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

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

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

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

| Year Ending June 30 | |
|--------------------------------|--------------------|
| 2009 | \$ 223,643 |
| 2010 | 230,750 |
| 2011 | 232,345 |
| 2012 | 228,633 |
| 2013 | <u>229,613</u> |
| Total minimum lease payments | 1,144,984 |
| Less interest portion | <u>(109,984)</u> |
| Net present value | <u>\$1,035,000</u> |

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

5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)

PARK EXPANSION BOND PAYABLE

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

| Year Ending June 30 | |
|--------------------------------|--------------------|
| 2009 | \$ 500,609 |
| 2010 | 496,110 |
| 2011 | 501,060 |
| 2012 | 500,278 |
| 2013 | 498,573 |
| 2014-08 | <u>1,303,306</u> |
| Total minimum lease payments | 3,799,936 |
| Less interest portion | <u>(424,936)</u> |
| Net present value | <u>\$3,375,000</u> |

NOTE PAYABLE – NEW INDUSTRIAL PARK

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

CONTINGENT LIABILITIES - LANDFILL CLOSURE

The City closed its landfill during Fiscal Year 91-92 and has spent \$4,250,509 on its closing through June 30, 2008. The estimated costs to close and post closure care have been recognized as General Long-term Debt in the financial statements in accordance with Statement No. 18 of the Governmental Accounting Standards Board. The City estimates there will be no additional costs. Accordingly, the General Long-term Debt of \$995,421 as of June 30, 2007 has been eliminated as of June 30, 2008.

ACCRUED LIABILITIES – COMPENSATED ABSENCES

As discussed in Note 1, Other Accounting Policies, the City allows employees to accumulate earned but unused holiday and sick pay benefits. As of June 30, 2008, the total liability for compensated absences was \$437,220.

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

6. RETIREMENT PLAN

CERS

The City of Berea is a participating employer of the County Employees' Retirement System (CERS), which is a multi-employer defined benefit plan that covers substantially all regular full-time employees of each county, school board, municipal and other local agencies electing to participate. Upon election to participate in the CERS, each employee has the option to participate, however, all subsequent employees must participate and the employer is required to continue participation.

Employees who retire at age 65 and have 48 or more months of credited service or have 27 years of credited service regardless of age are entitled to a retirement benefit, payable monthly for life, equal to 2% of the average annual salary of the members' five highest earning years multiplied by the number of years of service credit. Members retiring at less than 55 years of age with 25 to 27 years of service credit or 65 years of age with less than 48 months of service credit are entitled to reduced benefits. Members' retirement benefits become fully vested when they complete sixty months of service, twelve of which are current service.

The City of Berea has a total of 128 employees in the system covered by the CERS. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. All employees are non-hazardous duty employees who contributed 5.00% and the employer contributed 16.17%. The City's contribution for the year ended June 30, 2008 was \$678,000 and the employees contributed \$206,500.

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems (PERS). The measure is independent of the actuarial funding method used to determine contributions to the System.

All required contributions were paid at year end or within thirty (30) days thereafter. The percentage of the City's contribution to total employers' contributions in the CERS for the year is not known.

The CERS total actuarial accrued liability was \$8,868,182,305 and the net assets available for the benefits was \$7,107,113,404 as of June 30, 2007. Ten-year historical trend information showing assets available to pay benefits when due is presented in the System's June 30, 2007 comprehensive annual report.

457(b)

In addition, the City of Berea offers the 457(b) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 28 participants in the plan. Employees can contribute 100% of includible compensation up to \$15,500 and an additional \$5,000 if 50 or older. During the fiscal year employees contributed \$44,926 to the plan.

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

6. RETIREMENT PLAN (CONTINUED)

ICMA

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

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

The City of Berea had a total of two employees participating in the ICMA plan. During the fiscal year, employees contributed \$10,800 to the plan. All required contributions were paid at year end or within thirty (30) days thereafter.

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2008 were levied in November 2007 on the assessed property located in the City of Berea as of the preceding January 1. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

8. CONSTRUCTION IN PROGRESS

Berea Municipal Utilities is in progress on the following projects:

| Description of project | June 30, 2008 |
|--------------------------------|---------------------|
| Water Plant | \$ 792,416 |
| Lewis Street | 172,074 |
| US N Trunk Sewer Ext | 112,470 |
| Terrill Branch Ext | 104,866 |
| Transmission System Upgrade | 13,375 |
| Reservoir project | 12,695 |
| Total construction in progress | <u>\$ 1,207,896</u> |

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

9. NON EXCHANGE TRANSACTIONS

During the year, the Berea Municipal Utilities received non-cash contributions from developers in the form of sewer and water lines. The estimated value of these lines totaled \$336,112 and was added to the Commission's capital assets. Also, during the year, the BMU received connection fees totaling \$93,079 from customers connecting to the system, as well as \$41,670 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. The City also received \$5,750 in grant revenue for the sewer treatment plant.

10. RISK MANAGEMENT

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

SUPPLEMENTAL INFORMATION

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|------------------------------------|---------------------------|---------------------------|------------------|-----------------|
| MUNICIPAL TAXATION | | | | |
| General property taxes | \$ 468,000 | \$ 490,000 | \$ 541,841 | \$ 51,841 |
| State assessment property taxes | 5,000 | 5,000 | 6,172 | 1,172 |
| In lieu of property tax | 8,000 | 8,000 | 11,334 | 3,334 |
| Delinquent property taxes | 10,000 | 10,000 | 8,174 | (1,826) |
| Bank deposit taxes | 48,000 | 52,038 | 52,037 | (1) |
| Motor vehicle taxes | 15,000 | 15,000 | 31,484 | 16,484 |
| Penalties and interest | 1,500 | 1,500 | 5,096 | 3,596 |
| | <u>555,500</u> | <u>581,538</u> | <u>656,138</u> | <u>74,600</u> |
| LICENSES, PERMITS, BILLINGS | | | | |
| Occupational license fees | | | | |
| Insurance | 600,000 | 600,000 | 671,522 | 71,522 |
| Employee withholding | 4,500,000 | 4,500,000 | 4,835,892 | 335,892 |
| Net profits | 350,000 | 350,000 | 292,390 | (57,610) |
| Individual | 13,000 | 13,000 | 18,229 | 5,229 |
| Business | 1,200 | 1,200 | 1,230 | 30 |
| Regulated licenses | 12,700 | 12,700 | 11,775 | (925) |
| Penalty and interest | 10,000 | 10,000 | 495 | (9,505) |
| Utility franchise fees | 753,000 | 859,902 | 956,186 | 96,284 |
| Building permits | 59,000 | 59,000 | 47,764 | (11,236) |
| Electric permits | 44,000 | 44,000 | 47,183 | 3,183 |
| | <u>6,342,900</u> | <u>6,449,802</u> | <u>6,882,666</u> | <u>432,864</u> |
| CHARGES FOR SERVICE | | | | |
| Police - special services | 8,500 | 8,500 | 8,500 | - |
| Court costs & fees | 41,000 | 41,000 | 64,489 | 23,489 |
| Accident reports | 1,000 | 1,000 | 1,570 | 570 |
| Burning permits | 200 | 200 | 31 | (169) |
| Street cut permits | 1,500 | 1,500 | 2,105 | 605 |
| Codes - plat review fee | 13,000 | 13,000 | 8,110 | (4,890) |
| GIS mapping fees | 1,000 | 1,000 | 101 | (899) |
| Demolition cleanup | 2,000 | 2,000 | 1,772 | (228) |
| Parks concessions | 15,000 | 15,000 | 20,384 | 5,384 |
| Pool concessions | 30,000 | 30,000 | 36,235 | 6,235 |
| Swimming pool fees | 65,000 | 65,000 | 83,861 | 18,861 |
| Softball fees | 1,400 | 1,400 | 2,250 | 850 |
| Miscellaneous | 2,300 | 2,300 | 2,500 | 200 |
| | <u>181,900</u> | <u>181,900</u> | <u>231,908</u> | <u>50,008</u> |

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------------------------|---------------------------|---------------------------|-------------------------|-----------------------|
| FINES AND FORFEITS | | | | |
| Parking fines | \$ 5,000 | \$ 5,000 | \$ 5,547 | \$ 547 |
| INTERGOVERNMENTAL REVENUES | | | | |
| County school-police contract | 70,000 | 70,000 | 76,929 | 6,929 |
| Madison County grants | 55,500 | 55,500 | 55,500 | - |
| Other grants | 23,113 | 23,938 | 12,741 | (11,197) |
| Police incentive pay | 89,900 | 89,900 | 96,522 | 6,622 |
| Fire incentive pay | 55,000 | 55,000 | 66,407 | 11,407 |
| | <u>293,513</u> | <u>294,338</u> | <u>308,099</u> | <u>13,761</u> |
| OTHER REVENUE | | | | |
| Rental income | 46,800 | 57,200 | 64,038 | 6,838 |
| Interest income | 228,000 | 228,000 | 258,276 | 30,276 |
| Insurance proceeds | - | 15,635 | 17,521 | 1,886 |
| Sales of fixed assets | 1,300 | 1,300 | - | (1,300) |
| Donation of fixed assets | - | - | - | - |
| Miscellaneous | 5,925 | 5,925 | 18,582 | 12,657 |
| | <u>282,025</u> | <u>308,060</u> | <u>358,417</u> | <u>50,357</u> |
| TOTAL REVENUE | <u>\$ 7,660,838</u> | <u>\$ 7,820,638</u> | <u>\$ 8,442,775</u> | <u>\$ 622,137</u> |

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------------------|---------------------------|---------------------------|------------------|-----------------|
| ADMINISTRATION | | | | |
| Administration | | | | |
| Personnel | \$ 207,594 | \$ 225,089 | \$ 245,062 | \$ 19,973 |
| Commodities | 16,200 | 16,200 | 16,638 | 438 |
| Contractual | 67,650 | 55,650 | 32,579 | (23,071) |
| City Council | | | | |
| Personnel | 56,840 | 56,840 | 58,777 | 1,937 |
| Contractual | 73,200 | 72,764 | 65,364 | (7,400) |
| Commodities | 25,000 | 25,000 | - | (25,000) |
| Finance Office | | | | |
| Personnel | 247,165 | 247,165 | 199,646 | (47,519) |
| Commodities | 18,500 | 19,600 | 91,924 | 72,324 |
| Contractual | 75,550 | 75,550 | 56,022 | (19,528) |
| Building Maintenance | | | | |
| Personnel | 33,612 | 33,612 | 33,183 | (429) |
| Commodities | 22,500 | 22,500 | 21,521 | (979) |
| Contractual | 37,700 | 39,700 | 49,657 | 9,957 |
| Building Maintenance-Annex | | | | |
| Personnel | 13,928 | 15,990 | 15,246 | (744) |
| Commodities | - | - | - | - |
| Contractual | 34,000 | 34,000 | 21,515 | (12,485) |
| General Services | | | | |
| Contractual | 498,900 | 582,900 | 572,510 | (10,390) |
| Total Administration | <u>1,428,339</u> | <u>1,522,560</u> | <u>1,479,644</u> | <u>(42,916)</u> |
| POLICE | | | | |
| Administration | | | | |
| Personnel | 217,688 | 226,471 | 217,477 | (8,994) |
| Commodities | 6,550 | 6,550 | 6,751 | 201 |
| Contractual | 4,700 | 4,700 | 5,053 | 353 |
| Police Patrol | | | | |
| Personnel | 1,440,321 | 1,440,321 | 1,353,956 | (86,365) |
| Commodities | 109,575 | 117,105 | 121,612 | 4,507 |
| Contractual | 39,700 | 34,800 | 28,010 | (6,790) |
| Police Communication | | | | |
| Personnel | 337,874 | 153,787 | 151,855 | (1,932) |
| Commodities | 9,750 | 9,250 | 90,341 | 81,091 |
| Contractual | 90,458 | 39,162 | 28,941 | (10,221) |
| Police Training | | | | |
| Commodities | 8,800 | 8,800 | 8,396 | (404) |
| Contractual | 10,500 | 10,500 | 8,514 | (1,986) |
| Total Police Department | <u>2,275,916</u> | <u>2,051,446</u> | <u>2,020,906</u> | <u>(30,540)</u> |

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------|---------------------------|---------------------------|------------------|-----------------|
| FIRE | | | | |
| Administration | | | | |
| Personnel | \$ 79,004 | \$ 81,037 | \$ 77,287 | \$ (3,750) |
| Commodities | 4,400 | 4,625 | 3,528 | (1,097) |
| Contractual | 4,000 | 4,000 | 690 | (3,310) |
| Fire Suppression | | | | |
| Personnel | 963,053 | 963,053 | 921,193 | (41,860) |
| Commodities | 50,175 | 68,275 | 83,413 | 15,138 |
| Contractual | 100,450 | 103,450 | 91,031 | (12,419) |
| Fire Training | | | | |
| Commodities | 9,000 | 9,000 | 5,118 | (3,882) |
| Contractual | 7,000 | 7,000 | 5,512 | (1,488) |
| Total Fire Department | <u>1,217,082</u> | <u>1,240,440</u> | <u>1,187,772</u> | <u>(52,668)</u> |
| STREETS | | | | |
| Personnel | 658,686 | 669,438 | 646,809 | (22,629) |
| Commodities | 214,250 | 222,750 | 246,626 | 23,876 |
| Contractual services | 157,390 | 179,525 | 191,060 | 11,535 |
| Total Street Department | <u>1,030,326</u> | <u>1,071,713</u> | <u>1,084,495</u> | <u>12,782</u> |
| CODES ENFORCEMENT | | | | |
| Codes Administration | | | | |
| Personnel | 214,530 | 197,600 | 203,131 | 5,531 |
| Commodities | 9,700 | 9,600 | 17,130 | 7,530 |
| Contractual | 74,450 | 89,275 | 74,746 | (14,529) |
| Total Codes Enforcement | <u>298,680</u> | <u>296,475</u> | <u>295,007</u> | <u>(1,468)</u> |
| PARKS AND RECREATION | | | | |
| Parks and Recreation | | | | |
| Personnel | 221,476 | 221,476 | 183,822 | (37,654) |
| Commodities | 80,650 | 84,650 | 81,778 | (2,872) |
| Contractual services | 89,125 | 89,625 | 90,922 | 1,297 |
| Pool | | | | |
| Personnel | 105,497 | 105,497 | 80,671 | (24,826) |
| Commodities | 54,500 | 54,500 | 71,350 | 16,850 |
| Contractual services | 48,750 | 49,850 | 33,726 | (16,124) |
| Intergenerational Center | | | | |
| Contractual services | 24,350 | 27,750 | 21,719 | (6,031) |
| Total Parks and Recreation | <u>624,348</u> | <u>633,348</u> | <u>563,988</u> | <u>(69,360)</u> |

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-----------------------------|---------------------------|---------------------------|---------------------|---------------------|
| SANITATION | | | | |
| Landfill Operations | | | | |
| Personnel | \$ - | \$ - | \$ 173 | \$ 173 |
| Total Sanitation | <u>-</u> | <u>-</u> | <u>173</u> | <u>173</u> |
| GIS/SURVEYING | | | | |
| GIS/Land Surveying | | | | |
| Personnel | 97,290 | 97,290 | 94,617 | (2,673) |
| Commodities | 12,050 | 13,100 | 14,297 | 1,197 |
| Contractual services | <u>21,500</u> | <u>20,200</u> | <u>3,099</u> | <u>(17,101)</u> |
| Total GIS/Surveying | <u>130,840</u> | <u>130,590</u> | <u>112,013</u> | <u>(18,577)</u> |
| BUSINESS DEVELOPMENT | | | | |
| Business Development | | | | |
| Personnel | 58,220 | 58,220 | 57,534 | (686) |
| Commodities | 5,300 | 10,100 | 5,362 | (4,738) |
| Contractual services | <u>5,800</u> | <u>4,300</u> | <u>1,531</u> | <u>(2,769)</u> |
| Total Business Development | <u>69,320</u> | <u>72,620</u> | <u>64,427</u> | <u>(8,193)</u> |
| CAPITAL OUTLAY | | | | |
| Administration | 109,200 | 89,450 | 71,200 | (18,250) |
| Police | 231,225 | 270,417 | 123,661 | (146,756) |
| Fire | 112,500 | 97,500 | 20,910 | (76,590) |
| Streets | 178,300 | 218,038 | 183,638 | (34,400) |
| Codes enforcement | 7,500 | 10,000 | - | (10,000) |
| Parks and recreation | 92,600 | 92,600 | 19,977 | (72,623) |
| GIS/Surveying | <u>15,800</u> | <u>15,800</u> | <u>-</u> | <u>(15,800)</u> |
| Total Capital Outlay | <u>747,125</u> | <u>793,805</u> | <u>419,386</u> | <u>(374,419)</u> |
| DEBT SERVICE | <u>-</u> | <u>-</u> | <u>6,869</u> | <u>6,869</u> |
| TOTAL EXPENDITURES | <u>\$ 7,821,976</u> | <u>\$ 7,812,997</u> | <u>\$ 7,234,680</u> | <u>\$ (578,317)</u> |

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2008

| | <u>Enacted Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------------|---------------------------|---------------------------|---------------------|-------------------|
| BEREA MUNICIPAL UTILITIES | | | | |
| Administration | | | | |
| Personnel | \$ 599,656 | \$ 599,656 | \$ 568,733 | \$ (30,923) |
| Commodities | 43,200 | 43,700 | 107,232 | 63,532 |
| Contractual | <u>365,300</u> | <u>387,800</u> | <u>195,687</u> | <u>(192,113)</u> |
| | <u>1,008,156</u> | <u>1,031,156</u> | <u>871,652</u> | <u>(159,504)</u> |
| Electric | | | | |
| Personnel | 479,098 | 479,098 | 383,572 | (95,526) |
| Commodities | 6,089,800 | 6,089,800 | 6,536,585 | 446,785 |
| Contractual | <u>195,750</u> | <u>187,050</u> | <u>147,054</u> | <u>(39,996)</u> |
| | <u>6,764,648</u> | <u>6,755,948</u> | <u>7,067,211</u> | <u>311,263</u> |
| Water | | | | |
| Personnel | 389,224 | 392,224 | 382,265 | (9,959) |
| Commodities | 168,450 | 170,300 | 199,449 | 29,149 |
| Contractual | <u>485,350</u> | <u>486,950</u> | <u>408,627</u> | <u>(78,323)</u> |
| | <u>1,043,024</u> | <u>1,049,474</u> | <u>990,341</u> | <u>(59,133)</u> |
| Sewer | | | | |
| Personnel | 366,133 | 366,133 | 366,149 | 16 |
| Commodities | 62,400 | 59,900 | 73,026 | 13,126 |
| Contractual | <u>270,000</u> | <u>271,000</u> | <u>283,517</u> | <u>12,517</u> |
| | <u>698,533</u> | <u>697,033</u> | <u>722,692</u> | <u>25,659</u> |
| Landfill | | | | |
| Personnel | 56,921 | 56,921 | 79,070 | 22,149 |
| Commodities | 16,800 | 16,800 | 5,470 | (11,330) |
| Contractual | <u>33,200</u> | <u>32,200</u> | <u>17,713</u> | <u>(14,487)</u> |
| | <u>106,921</u> | <u>105,921</u> | <u>102,253</u> | <u>(3,668)</u> |
| Total Expenditures | <u>\$ 9,621,282</u> | <u>\$ 9,639,532</u> | <u>\$ 9,754,149</u> | <u>\$ 114,617</u> |

**CITY OF BEREA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2008**

| | Industrial Development Fund | Municipal Road Aid Fund | Tourism Fund | Menalaus Pike Fund | Berea Corridor Fund | Homeland Security Fund | Police Restricted Fund | Infrastructure Assessment Fund | Renaissance /Chestnut St. Fund | Debt Service Fund | Mayde Road Fund | Capital Projects Fund | 2008 Total | 2007 Total |
|-------------------------------------|-----------------------------------|-------------------------------|---------------------|--------------------------|---------------------------|------------------------------|------------------------------|--------------------------------------|--------------------------------------|-------------------------|-----------------------|-----------------------------|---------------------|---------------------|
| ASSETS | | | | | | | | | | | | | | |
| Cash | \$ 261,479 | \$ 401,893 | \$ 216,048 | \$ 45 | \$ 60,659 | \$ - | \$ 26,717 | \$ 32,493 | \$ 133,751 | \$ 21 | \$ 111,093 | \$ 21,133 | \$ 1,265,332 | \$ 1,146,654 |
| Accounts receivable | - | 21,324 | 184,489 | 43,288 | 24,977 | - | - | - | - | - | 161,358 | - | 435,436 | 42,448 |
| Interest receivable | 7,290 | - | - | - | - | - | - | - | - | - | - | - | 7,290 | 7,750 |
| Due from other fund | 71,200 | 854 | 1,563,331 | - | - | - | 14,286 | - | 46,050 | - | 9,169 | 330,405 | 2,035,295 | 1,384,042 |
| Total assets | <u>\$ 339,969</u> | <u>\$ 424,071</u> | <u>\$ 1,963,868</u> | <u>\$ 43,333</u> | <u>\$ 85,636</u> | <u>\$ -</u> | <u>\$ 41,003</u> | <u>\$ 32,493</u> | <u>\$ 179,801</u> | <u>\$ 21</u> | <u>\$ 281,620</u> | <u>\$ 351,538</u> | <u>\$ 3,743,353</u> | <u>\$ 2,580,894</u> |
| LIABILITIES AND FUND BALANCE | | | | | | | | | | | | | | |
| Liabilities | | | | | | | | | | | | | | |
| Accounts payable | \$ 68,514 | \$ - | \$ 51,241 | \$ 40,167 | \$ 24,977 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 281,620 | \$ 5,011 | \$ 471,530 | \$ 7,375 |
| Due to other fund | - | - | 1,875,639 | - | - | - | 13,848 | - | - | - | - | - | 1,889,487 | 1,359,143 |
| Total liabilities | 68,514 | - | 1,926,880 | 40,167 | 24,977 | - | 13,848 | - | - | - | 281,620 | 5,011 | 2,361,017 | 1,366,518 |
| Fund balance | <u>271,455</u> | <u>424,071</u> | <u>36,988</u> | <u>3,166</u> | <u>60,659</u> | <u>-</u> | <u>27,155</u> | <u>32,493</u> | <u>179,801</u> | <u>21</u> | <u>-</u> | <u>346,527</u> | <u>1,382,336</u> | <u>1,214,376</u> |
| Total liabilities and fund balances | <u>\$ 339,969</u> | <u>\$ 424,071</u> | <u>\$ 1,963,868</u> | <u>\$ 43,333</u> | <u>\$ 85,636</u> | <u>\$ -</u> | <u>\$ 41,003</u> | <u>\$ 32,493</u> | <u>\$ 179,801</u> | <u>\$ 21</u> | <u>\$ 281,620</u> | <u>\$ 351,538</u> | <u>\$ 3,743,353</u> | <u>\$ 2,580,894</u> |

**CITY OF BERA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL NONMAJOR FUNDS
for the year ended June 30, 2008**

| | Industrial Development Fund | Municipal Road Aid Fund | Tourism Fund | Menalaus Pike Fund | Berea Corridor Fund | Homeland Security Fund | Police Restricted Fund | Infrastructure Assessment Fund | Renaissance /Chestnut St. Fund | Debt Service Fund | Mayde Road Fund | Capital Projects Fund | 2008 Total | 2007 Total |
|-----------------------------------------------------------------------------|-----------------------------------|-------------------------------|------------------|--------------------------|---------------------------|------------------------------|------------------------------|--------------------------------------|--------------------------------------|-------------------------|-----------------------|-----------------------------|---------------------|---------------------|
| REVENUES | | | | | | | | | | | | | | |
| Municipal Taxation | \$ - | \$ - | \$ 918,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 918,000 | \$ 122,202 |
| Intergovernmental revenues | - | 173,982 | - | 43,288 | 88,093 | - | - | - | 126,882 | - | 458,567 | 288,347 | 1,179,159 | 895,115 |
| Sale of property | - | - | - | - | - | - | - | - | - | - | - | - | - | 930,800 |
| Other revenues | 25,403 | 1,646 | 70,925 | 18 | - | - | 130 | 157 | 113 | - | 33 | 10,450 | 108,875 | 51,876 |
| Total revenues | 25,403 | 175,628 | 988,925 | 43,306 | 88,093 | - | 130 | 157 | 126,995 | - | 458,600 | 298,797 | 2,206,034 | 1,999,993 |
| EXPENDITURES | | | | | | | | | | | | | | |
| Current | | | | | | | | | | | | | | |
| General administration | - | - | - | - | - | - | - | - | 3,000 | - | - | 10,491 | 13,491 | - |
| Police department | - | - | - | - | - | 1,162 | 618 | - | - | - | - | - | 1,780 | 2,672 |
| Fire department | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Street department | - | - | - | - | - | - | - | - | 87,070 | - | - | 65,754 | 152,824 | 389,793 |
| Parks and recreation | - | - | - | - | - | - | - | - | - | - | - | 25,831 | 25,831 | - |
| Tourism | - | - | 573,806 | - | - | - | - | - | - | - | - | 4,478 | 578,284 | 301,318 |
| Industrial Development | 34,295 | - | - | - | - | - | - | - | - | - | - | - | 34,295 | 53,742 |
| State Contracts | - | - | - | - | 88,093 | - | - | - | - | - | 96,429 | - | 184,522 | 493,952 |
| Capital outlay | 188,643 | - | - | 40,168 | - | - | - | - | - | - | 483,940 | 923,844 | 1,636,595 | 789,810 |
| Debt service | 368,421 | - | - | - | - | - | - | - | - | 236,974 | - | - | 605,395 | 648,258 |
| Total expenditures | 591,359 | - | 573,806 | 40,168 | 88,093 | 1,162 | 618 | - | 90,070 | 236,974 | 580,369 | 1,030,398 | 3,233,017 | 2,679,545 |
| Excess revenues over (under) expenditures before other sources (uses) | (565,956) | 175,628 | 415,119 | 3,138 | - | (1,162) | (488) | 157 | 36,925 | (236,974) | (121,769) | (731,601) | (1,026,983) | (679,552) |
| Other financing sources | | | | | | | | | | | | | | |
| Note proceeds | - | - | - | - | - | - | - | - | - | - | - | - | - | 279,200 |
| Transfers from other funds | 50,000 | 2,225 | (384,353) | - | - | - | - | - | 92,000 | 236,974 | 119,969 | 1,080,512 | 1,197,327 | 804,841 |
| Excess revenues and other sources over (under) expenditures | (515,956) | 177,853 | 30,766 | 3,138 | - | (1,162) | (488) | 157 | 128,925 | - | (1,800) | 348,911 | 170,344 | 404,489 |
| Fund balances, July 1, 2007 | 787,411 | 246,218 | 6,222 | 28 | 60,659 | 1,162 | 27,643 | 32,336 | 50,876 | 21 | 1,800 | (2,384) | 1,211,992 | 809,887 |
| FUND BALANCES- JUNE 30, 2008 | \$ 271,455 | \$ 424,071 | \$ 36,988 | \$ 3,166 | \$ 60,659 | \$ - | \$ 27,155 | \$ 32,493 | \$ 179,801 | \$ 21 | \$ - | \$ 346,527 | \$ 1,382,336 | \$ 1,214,376 |

**CITY OF BEREА, 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 Bereа
Berea, Kentucky

We have audited the financial statements financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bereа (the "City") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards**.

This report is intended solely for the information and use of the City Council, management, and the appropriate grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
October 1, 2008