

CITY OF BERA
Berea, Kentucky



FINANCIAL STATEMENTS
June 30, 2010

CONTENTS

Management's Discussion and Analysis.....	1-8
Independent Auditors' Report	9
Government Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet-Governmental Funds.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	13
Balance Sheet - Proprietary Funds.....	14
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Funds..	16
Notes to Financial Statements	17-30
Required Supplemental Information	
Budget Information	31-36
Combining Balance Sheet – Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenditures and Changes in Net Assets – Nonmajor Governmental Funds	38
Report in Accordance with Government Auditing Standards.....	39
Single Audit Reporting	
Report in Accordance with OMB A-133	40-41
Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43

City of Berea, Kentucky

Management's Discussion and Analysis

Our discussion and analysis of the City of Berea's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2010. Please read the following in conjunction with the auditors' report on page 9 and the City's financial statements, which begin to appear on page 10.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

			2010	2009
	Governmental Activities	Business-type Activities	Primary Government	Primary Government
Current and Other Assets	\$ 8,328,920	\$ 12,866,201	\$ 21,195,121	\$ 23,866,351
Capital Assets	<u>19,093,869</u>	<u>42,760,225</u>	<u>61,854,094</u>	<u>54,607,111</u>
Total Assets	<u>27,422,789</u>	<u>55,626,426</u>	<u>83,049,215</u>	<u>78,473,462</u>
Long-Term Outstanding	3,421,829	19,605,194	23,027,023	23,717,786
Current Liabilities	<u>1,948,888</u>	<u>8,500,344</u>	<u>10,449,232</u>	<u>8,519,205</u>
Total Liabilities	<u>5,370,717</u>	<u>28,105,538</u>	<u>33,476,255</u>	<u>32,236,991</u>
Net Assets:				
Invested in Capital Assets,				
net of debt	15,497,646	17,335,167	32,832,813	26,675,658
Restricted	1,519,092	19,603	1,538,695	1,450,009
Unrestricted	<u>5,035,334</u>	<u>10,166,118</u>	<u>15,201,452</u>	<u>18,110,804</u>
Total Net Assets	<u>\$ 22,052,072</u>	<u>\$ 27,520,888</u>	<u>\$ 49,572,960</u>	<u>\$ 46,236,471</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

	Governmental	Business-type	2010	2009
	Activities	Activities	Total	Total
	Activities	Activities	Primary	Primary
	Activities	Activities	Government	Government
Revenues				
<u>Program Revenues</u>				
Charges for Service	\$ 176,862	\$ 13,471,276	\$ 13,648,138	\$ 12,990,455
Operating Grants & Contributions	673,383	-	673,383	3,378,553
Capital Grants & Contributions	-	1,903,895	1,903,895	381,919
<u>General Revenue</u>				
Taxes	1,853,598	-	1,853,598	1,621,193
License Fees	6,658,716	-	6,658,716	6,787,719
Permits	49,189	-	49,189	74,731
Grants & Contributions Not Restricted to Specific Programs	-	-	-	-
Investment Earnings	116,847	179,870	296,717	446,723
Other Revenues	<u>258,939</u>	<u>-</u>	<u>258,939</u>	<u>194,252</u>
Total Revenue	<u>9,787,534</u>	<u>15,555,041</u>	<u>25,342,575</u>	<u>26,369,747</u>
<u>Program Expenses</u>				
General Government	1,514,458	-	1,514,458	1,559,821
Public safety-Police	2,239,542	-	2,239,542	2,160,683
Public safety-Fire	1,452,300	-	1,452,300	1,298,697
Public works	1,694,915	-	1,694,915	1,744,324
Codes enforcement	263,259	-	263,259	316,477
Parks and Recreation	961,444	-	961,444	782,466
Sanitation	12,167	-	12,167	12,744
GIS/Surveying	138,188	-	138,188	124,984
Business Development	69,727	-	69,727	63,601
Tourism	773,968	-	773,968	664,362
Industrial Development	5,891	-	5,891	-
State Contracts	93,323	-	93,323	622,967
Interest on long-term debt	160,752	-	160,752	190,621
Utilities	<u>-</u>	<u>12,889,607</u>	<u>12,889,607</u>	<u>12,830,693</u>
Total program expenses	<u>9,379,934</u>	<u>12,889,607</u>	<u>22,269,541</u>	<u>22,533,876</u>
Eliminate landfill closure Obligation	-	-	-	-
Gain (Loss) on sale of Property	263,455	-	263,455	-
Transfers in(out)	<u>(153,547)</u>	<u>153,547</u>	<u>-</u>	<u>-</u>
Net Change In Net Assets	<u>\$ 517,508</u>	<u>\$ 2,818,981</u>	<u>\$ 3,336,489</u>	<u>\$ 3,835,871</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

	2010	2009
Taxes	\$ 1,853,598	\$ 1,621,193
Licenses and permits	6,707,905	6,758,912
Intergovernmental	673,383	3,378,553
Fines & Forfeits	21,148	4,195
Charges for Services	176,862	200,834
Other Revenues	<u>354,638</u>	<u>474,940</u>
Total Revenues	<u>9,787,534</u>	<u>12,438,627</u>
General Government	1,439,793	1,562,716
Public safety-Police	2,099,768	2,106,088
Public safety-Fire	1,331,145	1,186,399
Public works-Streets	1,586,463	1,420,354
Codes Enforcement	256,687	306,765
Parks and Recreation	596,240	638,785
Sanitation	-	-
GIS/Surveying	123,269	113,484
Business Development	69,727	63,601
Tourism	747,861	641,695
Industrial Development	5,891	-
State Contracts	93,323	622,967
Debt service	1,046,177	1,079,479
Capital outlay	<u>1,282,207</u>	<u>6,054,650</u>
Total Expenditures	<u>10,678,551</u>	<u>15,796,983</u>
Excess (Expenditures over		
Excess (deficiency) of		
revenues over		
expenditures before		
other financing sources	<u>\$ (891,017)</u>	<u>\$ (3,358,356)</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	\$ 642,414	\$ 713,194	\$ 70,780
Licenses and permits	5,856,154	6,707,905	851,751
Intergovernmental	276,900	304,701	27,801
Fines & Forfeits	15,707	21,148	5,441
Charges for Service	153,325	176,862	23,537
Other Revenues	<u>421,785</u>	<u>244,675</u>	<u>(177,110)</u>
Total Revenues	<u>7,366,285</u>	<u>8,168,485</u>	<u>802,200</u>

Table A-5

Condensed Governmental Activities – Expenditures

General Government	\$ 1,738,164	\$ 1,425,443	\$ (312,721)
Public safety-Police	2,225,229	2,099,768	(125,461)
Public safety-Fire	1,268,351	1,331,145	62,794
Public works-Streets	1,311,416	1,123,154	188,262
Codes Enforcement	311,300	256,687	(54,613)
Parks and Recreation	697,466	587,167	(110,299)
GIS/Surveying	147,960	123,269	(24,691)
Business Development	77,210	69,727	(7,483)
Capital Outlay	719,500	360,116	(359,384)
Debt service	<u>-</u>	<u>5,889</u>	<u>5,889</u>
	<u>\$ 8,496,596</u>	<u>\$ 7,382,365</u>	<u>(1,114,231)</u>

The City budgeted for a total of \$7,366,285 in revenues for 2009-2010, but ended up having revenues of \$8,168,485. In other words, the City received 111 percent of all budgeted revenues. A total of \$8,496,596 was budgeted for expenses, but expenditures only totaled \$7,382,365 at the end of fiscal year 2010. The City was under budget on the expenses by more than 13 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	2010	2009
	Activities	Activities	Total Primary	Total Primary
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>	<u>Government</u>
Land	\$ 4,052,134	\$ 106,882	\$ 4,159,016	\$ 4,159,016
Land Improvements	677,330	-	677,330	677,330
Construction in Progress	3,055,892	9,084,312	12,140,204	6,113,119
Infrastructure	7,182,960	-	7,182,960	6,813,859
Buildings	5,771,880	1,815,243	7,587,123	7,587,123
Vehicles	3,773,880	670,492	4,444,372	3,787,236
Equipment	2,151,902	430,452	2,582,354	2,581,172
Plant & Sewer System	-	27,558,249	27,558,249	25,724,539
Electric system	-	10,469,040	10,469,040	9,988,712
Water system	-	8,663,005	8,663,005	8,416,567
Total Capital Assets	<u>\$ 26,665,978</u>	<u>\$ 58,797,675</u>	<u>\$ 85,463,653</u>	<u>\$ 75,848,673</u>

DEBT

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

Table A-7
Debt Outstanding at Year End

	Governmental	Business-type	2010	2009
	Activities	Activities	Total Primary	Total Primary
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>	<u>Government</u>
Leases	\$ 8,361	\$ -	\$ 8,361	\$ 16,067
Bonds Payable	3,190,000	16,445,000	19,635,000	22,435,000
Loans Payable	397,862	8,980,058	9,377,920	5,518,649
Compensated Absences	474,831	151,508	626,339	437,220
Total Debt Outstanding	<u>\$ 4,071,054</u>	<u>\$25,576,566</u>	<u>\$ 29,647,620</u>	<u>\$28,406,936</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Economic conditions continue to apply pressure to the day to day activities of the City. Several of our industry has recalled employees which have strengthened our revenues but the City's receipts are not up to levels of three years ago. Operational cost have risen in this fiscal year mainly due to annual pay increases, anticipated new hires, and the first increase in medical insurance coverage the City has experienced in three years. The City has also experienced two major flooding events causing the focus of work and funding of the Streets Department to be mainly the restoration of drainage channels and replacement of drainage structures. These activities were not part of the planning of the present fiscal budget. As with the past two fiscal years, cash flow management is a top priority especially in the first quarter of the fiscal year. The first and second quarter challenges of meeting the cost of property and casualty insurances, workers compensation payments and bond obligations for two park bonds has become extremely difficult during the last two fiscal years. The third and fourth quarters of the fiscal year presents opportunity for the City to purchase budgeted capital equipment and to do necessary maintenance and repairs of City facilities.

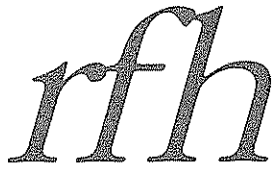
With all of this being said, the City remains fiscally sound. Cash reserves combined with anticipated revenues presents strong evidence that the City will continue to be fiscally sound as we prepare for the 2010-11 fiscal year. The challenge of daily containment of spending is and will be a challenge to management. As stated last year, professionalism in fiscal management is once again evident in the results of this audit and will continue to be the goal of both the elected officials and the staff of the City of Berea.

UTILITIES

The major focus of the Utilities Department has been the continuing construction project at the water treatment plant. Almost completed by year's end, the operators and staff were able to produce the necessary water supply for the City of Berea and southern Madison County while the construction had been in progress. The electric division continued converting the Burnamwood Subdivision and the Scaffold Cane Road circuits to the higher 7200 volt system. Efforts were put on hold for the reservoir project, but will start back upon completion of the water treatment plant. Automatic radio read meters continued being installed for both electric and water services, rapidly approaching the halfway mark. The sewer division completed the oversight of the work on the Stoney Creek development and has accepted the system for operation and maintenance purposes. Other sewer projects accepted on the system include Central Park North and Green Meadows subdivisions. The one water and sewer line project completed by developers and accepted by the City as contributed capital was Homestead Estates-Block 4.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Berea
Berea, Kentucky

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

J. Carroll Luby, CPA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2010, 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, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2010, 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 8 and 31 through 36 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 September 29, 2010, on our consideration of the City of Berea, Kentucky's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, **Audits of States, Local Governments, and Non-Profit Organizations**, and is also not a required part of the basic financial statements of the City of Berea, Kentucky. The supplemental schedules on pages 37 and 38 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

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CITY OF BEREA, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	Primary Government			2009 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,561,399	\$ 373,963	\$ 1,935,362	\$ 2,455,470
Investments	5,300,501	6,784,202	12,084,703	12,700,000
Receivables (net)	1,409,524	1,878,646	3,288,170	3,501,714
Other receivable	-	5,570	5,570	150,000
Interest receivable	4,763	15,100	19,863	139,355
Prepaid expenses	-	-	-	546,770
Internal balances	-	255,891	255,891	230,644
Total current assets	<u>8,276,187</u>	<u>9,313,372</u>	<u>17,589,559</u>	<u>19,723,953</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	2,502,564	2,502,564	2,984,195
Inventory	-	623,856	623,856	645,394
Capital assets (Note 3)				
Construction in progress	3,055,892	9,084,312	12,140,204	6,113,119
Land	4,052,134	-	4,052,134	4,052,134
Land improvements, net	578,517	1,642,299	2,220,816	2,283,537
Depreciable infrastructure, net	6,443,064	-	6,443,064	6,293,526
Plant and sewer system, net	-	16,079,088	16,079,088	15,029,010
Plant and electric system, net	-	8,206,035	8,206,035	8,135,991
Plant and water system, net	-	7,292,574	7,292,574	7,288,157
Depreciable buildings, property, and equipment, net	4,964,262	455,917	5,420,179	5,411,637
Other assets	52,733	426,409	479,142	512,809
Total noncurrent assets	<u>19,146,602</u>	<u>46,313,054</u>	<u>65,459,656</u>	<u>58,749,509</u>
Total assets	<u>\$ 27,422,789</u>	<u>\$ 55,626,426</u>	<u>\$ 83,049,215</u>	<u>\$ 78,473,462</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 431,413	\$ 1,487,080	\$ 1,918,493	\$ 2,421,495
Accrued payroll	446,506	72,557	519,063	277,800
Accrued taxes	-	52,078	52,078	54,447
Construction payable	-	193,885	193,885	-
Accrued interest payable	-	7,500	7,500	346,404
Customer deposits	-	655,365	655,365	627,395
Accrued leave payable	165,853	60,507	226,360	208,856
Internal balances	255,891	-	255,891	230,644
Current portion of long-term obligations (Notes 4 & 5)	649,225	5,971,372	6,620,597	4,213,667
Total current liabilities	<u>1,948,888</u>	<u>8,500,344</u>	<u>10,449,232</u>	<u>8,380,708</u>
Noncurrent liabilities				
Compensated absences	474,831	151,508	626,339	594,651
Noncurrent portion of long-term obligations (Notes 4 & 5)	2,946,998	19,453,686	22,400,684	23,261,632
Total noncurrent liabilities	<u>3,421,829</u>	<u>19,605,194</u>	<u>23,027,023</u>	<u>23,856,283</u>
Total liabilities	<u>5,370,717</u>	<u>28,105,538</u>	<u>33,476,255</u>	<u>32,236,991</u>
NET ASSETS				
Invested in capital assets, net of related debt	15,497,646	17,335,167	32,832,813	27,131,812
Restricted for				
Debt service	21	19,603	19,624	362,334
Other purposes	1,519,071	-	1,519,071	1,087,675
Unrestricted	5,035,334	10,166,118	15,201,452	17,654,650
Total net assets	<u>22,052,072</u>	<u>27,520,888</u>	<u>49,572,960</u>	<u>46,236,471</u>
Total liabilities and net assets	<u>\$ 27,422,789</u>	<u>\$ 55,626,426</u>	<u>\$ 83,049,215</u>	<u>\$ 78,473,462</u>

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

**CITY OF BERA, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2009 Totals
		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	\$ 1,514,458	\$ -	\$ -	\$ -	\$ (1,514,458)	\$ -	\$ (1,514,458)	\$ (1,644,323)
Public safety-Police	2,239,542	56,756	208,286		(1,974,500)	-	(1,974,500)	(1,974,827)
Public safety-Fire	1,452,300	5	104,124		(1,348,171)	-	(1,348,171)	(1,196,348)
Public works	1,694,915	2,157	13,450		(1,679,308)	-	(1,679,308)	(1,741,707)
Codes enforcement	263,259	4,719			(258,540)	-	(258,540)	(309,258)
Parks and recreation	961,444	113,201	17,500		(830,743)	-	(830,743)	(638,190)
Sanitation	12,167	-			(12,167)	-	(12,167)	(12,744)
GIS/Surveying	138,188	24			(138,164)	-	(138,164)	(124,106)
Business development	69,727				(69,727)		(69,727)	(63,601)
Tourism	773,968	-	30,803		(743,165)	-	(743,165)	(600,050)
Industrial development	5,891	-		-	(5,891)	-	(5,891)	96,532
State contracts	93,323	-	299,220		205,897	-	205,897	2,196,584
Interest on long-term debt	160,752	-	-	-	(160,752)	-	(160,752)	(190,621)
Total governmental activities	9,379,934	176,862	673,383	-	(8,529,689)	-	(8,529,689)	(6,202,659)
Business type activities								
Berea Municipal Utilities	12,889,607	13,471,276	-	1,903,895	-	2,485,564	2,485,564	842,055
Total business-type activities	12,889,607	13,471,276	-	1,903,895	-	2,485,564	2,485,564	842,055
Total primary government	\$ 22,269,541	\$ 13,648,138	\$ 673,383	\$ 1,903,895	(8,529,689)	2,485,564	(6,044,125)	(5,360,604)
General revenues								
Taxes:								
Property taxes, levied for general purposes					713,194	-	713,194	693,885
Transient room tax					955,047	-	955,047	927,308
State gas tax					180,433	-	180,433	164,905
Coal & mineral tax					4,924	-	4,924	10,490
License fees:								
Franchise					946,356	-	946,356	984,015
Payroll					4,631,576	-	4,631,576	4,575,890
Insurance premiums					771,917	-	771,917	745,488
Occupational					308,867	-	308,867	378,788
Permits:								
Building					29,481	-	29,481	27,770
Electric					19,708	-	19,708	46,961
Investment earnings					116,847	179,870	296,717	446,723
Miscellaneous					258,939	-	258,939	194,252
Total general revenues					8,937,289	179,870	9,117,159	9,196,475
Gain (loss) on sales of fixed assets					263,455	-	263,455	-
Transfers in(out)					(153,547)	153,547	-	-
Change in Net Assets					517,508	2,818,981	3,336,489	3,835,871
Net assets-beginning					21,534,564	24,701,907	46,236,471	42,400,600
NET ASSETS-ENDING					\$ 22,052,072	\$ 27,520,888	\$ 49,572,960	\$ 46,236,471

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

**CITY OF BEREA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	General	Other Governmental Funds	Total Governmental Funds	2009 Totals
ASSETS				
Cash and cash equivalents	\$ 717,501	\$ 843,898	\$ 1,561,399	\$ 1,997,175
Investments	4,445,179	855,322	5,300,501	4,965,000
Receivables, net	1,083,802	325,722	1,409,524	1,702,070
Interest receivable	3,772	991	4,763	61,468
Prepaid expenses	-	-	-	418,549
Due from other funds	-	458,686	458,686	576,687
Other assets	-	52,733	52,733	59,325
Total assets	\$ 6,250,254	\$ 2,537,352	\$ 8,787,606	\$ 9,780,274
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 120,919	\$ 310,494	\$ 431,413	\$ 823,090
Accrued payroll	446,506	-	446,506	198,519
Accrued leave payable	165,853	-	165,853	153,856
Due to other funds	6,811	707,766	714,577	807,331
Total liabilities	740,089	1,018,260	1,758,349	1,982,796
Fund balances				
Unreserved, reported in:				
General fund	5,510,165	-	5,510,165	6,232,299
Special revenue funds	-	1,519,071	1,519,071	1,565,158
Debt service funds	-	21	21	21
Total fund balances	5,510,165	1,519,092	7,029,257	7,797,478
Total liabilities and fund balances	\$ 6,250,254	\$ 2,537,352	\$ 8,787,606	\$ 9,780,274

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

Fund balances reported above	\$ 7,029,257	\$ 7,797,478
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,093,869	18,684,378
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(4,071,054)	(4,947,292)
Net assets of governmental activities	\$ 22,052,072	\$ 21,534,564

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, 2010

	General	Other Governmental Funds	Total Governmental Funds	2009 Totals
REVENUES				
Taxes	\$ 713,194	\$ 1,140,404	\$ 1,853,598	\$ 1,621,193
Licenses and permits	6,707,905	-	6,707,905	6,758,912
Charges for services	176,862	-	176,862	200,834
Fines and forfeits	21,148	-	21,148	4,195
Intergovernmental	304,701	368,682	673,383	3,378,553
Other revenues	<u>244,675</u>	<u>109,963</u>	<u>354,638</u>	<u>474,940</u>
Total revenues	<u>8,168,485</u>	<u>1,619,049</u>	<u>9,787,534</u>	<u>12,438,627</u>
EXPENDITURES				
Current:				
General administration	1,425,443	14,350	1,439,793	1,562,716
Public safety-police	2,099,768	-	2,099,768	2,106,088
Public safety-fire	1,331,145	-	1,331,145	1,186,399
Public works	1,123,154	463,309	1,586,463	1,420,354
Codes enforcement	256,687	-	256,687	306,765
Parks and recreation	587,167	9,073	596,240	638,785
GIS/Surveying	123,269	-	123,269	113,484
Business development	69,727	-	69,727	63,601
Tourism	-	747,861	747,861	641,695
Industrial development	-	5,891	5,891	-
State contracts	-	93,323	93,323	622,967
Capital outlay	360,116	922,091	1,282,207	6,054,650
Debt service	<u>5,889</u>	<u>1,040,288</u>	<u>1,046,177</u>	<u>1,079,479</u>
Total expenditures	<u>7,382,365</u>	<u>3,296,186</u>	<u>10,678,551</u>	<u>15,796,983</u>
Excess (deficiency) of revenues over expenditures	<u>786,120</u>	<u>(1,677,137)</u>	<u>(891,017)</u>	<u>(3,358,356)</u>
OTHER FINANCING SOURCES (USES)				
Note proceeds	-	9,188	9,188	-
Proceeds from sale of assets	17,155	250,000	267,155	-
Transfers in (out)	<u>(996,954)</u>	<u>843,407</u>	<u>(153,547)</u>	<u>(93,663)</u>
Total other financing sources and uses	<u>(979,799)</u>	<u>1,102,595</u>	<u>122,796</u>	<u>(93,663)</u>
Net change in fund balances	(193,679)	(574,542)	(768,221)	(3,452,019)
Fund balances-beginning	<u>5,703,844</u>	<u>2,093,634</u>	<u>7,797,478</u>	<u>11,249,497</u>
Fund balances-ending	<u>\$ 5,510,165</u>	<u>\$ 1,519,092</u>	<u>\$ 7,029,257</u>	<u>\$ 7,797,478</u>
Reconciliation to government-wide change in net assets:				
Net change in fund balances			\$ (768,221)	\$ (3,452,019)
add: capital outlay expenditures capitalized			1,282,207	6,054,650
add: debt service expenditures			1,046,177	1,079,479
less: cost of property disposed			(3,700)	-
less: change in sick pay which does not require current financial resources			(18,677)	(18,933)
less: lease proceeds			(9,188)	-
less: depreciation on governmental activities assets			(869,015)	(849,708)
less: interest on long term debt			<u>(142,075)</u>	<u>(171,688)</u>
Change in net assets Governmental Activities			<u>\$ 517,508</u>	<u>\$ 2,641,781</u>

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

**CITY OF BEREA, KENTUCKY
BALANCE SHEET
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
June 30, 2010**

	Business Type Activities	
	Utilities	
	2010	2009 Totals
	<u>2010</u>	<u>2009 Totals</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 373,963	\$ 458,295
Investments	6,784,202	7,735,000
Receivables (net)	1,878,646	1,799,644
Other receivable	5,570	150,000
Interest receivable	15,100	77,887
Prepaid expenses	-	128,221
Due from (to) other funds	<u>255,891</u>	<u>230,644</u>
Total current assets	<u>9,313,372</u>	<u>10,579,691</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,502,564	2,984,195
Inventory	623,856	645,394
Capital assets		
Construction in progress	9,084,312	3,386,429
Land, easements and buildings	1,922,125	1,922,125
Plant and electric equipment	10,469,040	9,988,712
Plant and water equipment	8,663,005	8,416,567
Plant and sewer equipment	27,558,249	25,724,539
Vehicle and equipment	1,100,944	957,560
Less accumulated depreciation	(16,037,450)	(14,473,199)
Other assets, (net)	<u>426,409</u>	<u>453,484</u>
Total noncurrent assets	<u>46,313,054</u>	<u>40,005,806</u>
Total assets	<u>\$ 55,626,426</u>	<u>\$ 50,585,497</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,487,080	\$ 1,259,325
Accrued payroll	72,557	79,281
Accrued taxes	52,078	54,447
Construction payable	193,885	339,080
Accrued interest payable	7,500	346,404
Customer Deposits	655,365	627,395
Accrued leave	60,507	55,000
Bonds, notes, and loans payable	<u>5,971,372</u>	<u>2,459,103</u>
Total current liabilities	8,500,344	5,220,035
Noncurrent liabilities		
Compensated absences	151,508	138,497
Bonds, notes, and loans payable	<u>19,453,686</u>	<u>20,525,058</u>
Total noncurrent liabilities	<u>19,605,194</u>	<u>20,663,555</u>
Total liabilities	<u>28,105,538</u>	<u>25,883,590</u>
NET ASSETS		
Invested in capital assets, net of related debt	17,335,167	12,938,572
Restricted for debt service	19,603	362,313
Unrestricted	<u>10,166,118</u>	<u>11,401,022</u>
Total net assets	<u>27,520,888</u>	<u>24,701,907</u>
Total liabilities and Net Assets	<u>\$ 55,626,426</u>	<u>\$ 50,585,497</u>

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

**CITY OF BEREA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2010**

	Business Type Activities Utilities	
	<u>2010</u>	<u>2009 Totals</u>
Operating revenues		
Electric service	\$ 9,013,881	\$ 9,044,975
Water service	2,541,010	2,418,962
Sewer service	1,851,377	1,714,481
Other revenues	<u>65,008</u>	<u>208,943</u>
Total operating revenues	<u>13,471,276</u>	<u>13,387,361</u>
Operating expenses		
Administration	880,441	1,063,919
Electric	7,750,894	7,549,238
Water	1,114,482	1,060,936
Sewer	798,495	790,217
Landfill	-	-
Depreciation and amortization	<u>1,564,253</u>	<u>1,594,131</u>
Total operating expenses	<u>12,108,565</u>	<u>12,058,441</u>
Operating income (loss)	<u>1,362,711</u>	<u>1,328,920</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	179,870	258,372
Interest expense	<u>(781,042)</u>	<u>(772,252)</u>
Total nonoperating revenue (expense)	<u>(601,172)</u>	<u>(513,880)</u>
Income before capital contributions	761,539	815,040
Capital contributions		
Electric, water and sewer connection fees	68,463	47,174
Developer contributions	1,777,636	100,650
Customer reimbursements - electric	57,796	137,563
Grant revenues	-	-
Transfers in (out)	<u>153,547</u>	<u>93,663</u>
Change in net assets	2,818,981	1,194,090
Total net assets-beginning	<u>24,701,907</u>	<u>23,507,817</u>
TOTAL NET ASSETS-ENDING	<u>\$ 27,520,888</u>	<u>\$ 24,701,907</u>

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

**CITY OF BEREA, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2010**

	Business Type Activities Utilities	
	2010	2009 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 13,562,305	\$ 13,065,431
Payments to suppliers	(8,656,706)	(8,133,189)
Payments for employee services and benefits	<u>(1,862,625)</u>	<u>(1,860,991)</u>
Net cash provided by operating activities	<u>3,042,974</u>	<u>3,071,251</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfers to other funds	<u>153,547</u>	<u>93,663</u>
Net cash provided (used) by non-capital and related financing activities	<u>153,547</u>	<u>93,663</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,903,895	285,387
Proceeds from long-term debt	3,479,923	1,420,077
Principal paid on capital debt	(1,039,026)	(1,006,703)
Purchases of capital assets	(2,703,860)	(479,880)
Purchases of construction in progress	(5,504,000)	(2,178,533)
Interest paid on capital debt	<u>(1,030,084)</u>	<u>(723,614)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,893,152)</u>	<u>(2,683,266)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity (net)	950,798	(1,250,000)
Interest and dividends	<u>179,870</u>	<u>258,372</u>
Net cash provided by investing activities	<u>1,130,668</u>	<u>(991,628)</u>
Net increase (decrease) in cash and cash equivalents	(565,963)	(509,980)
Balances-beginning of the year	<u>3,442,490</u>	<u>3,952,470</u>
BALANCES-END OF THE YEAR	<u>\$ 2,876,527</u>	<u>\$ 3,442,490</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,362,711	\$ 1,328,920
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,564,253	1,594,131
Change in assets and liabilities		
Receivables, net	65,428	(319,390)
Inventory	21,538	(93,795)
Prepaid expense	128,221	(128,221)
Due to/from other funds	(25,247)	(5,945)
Accounts payable	(111,325)	699,443
Accrued vacation, sick, & holiday	18,518	(14,754)
Accrued taxes	(6,724)	(364)
Other liabilities	(2,369)	13,402
Customer deposits	<u>27,970</u>	<u>(2,176)</u>
Net cash provided by operating activities	<u>\$ 3,042,974</u>	<u>\$ 3,071,251</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Contracts payable for capital items, net	<u>\$ (193,885)</u>	<u>\$ (339,080)</u>

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

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements

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

Fund Financial Statements

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

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

The following funds are used by the City of Berea:

Governmental Funds

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

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

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

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

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

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

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

US 25 North – The US 25 North Fund is used to account for the complete redesign of US 25. The redesign will be comprised of up to five lanes of traffic including turn lanes at intersections. The project including design is fully funded with State funds.

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

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds, Continued

(GASB) pronouncements, in which case, GASB prevails. The City's enterprise operations include the Berea Municipal Utilities, a department of the City that provides electric, water, and sewer services to the residents of the City of Berea.

C. Basis of Accounting

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

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include 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.

The City's actual expenditures exceeded its adopted budget for the fire department due to overtime payments to firefighters.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other Accounting Policies

Accounts receivable from customers are stated less an allowance for doubtful accounts in the Berea Municipal Utilities Fund. There is no balance in the allowance for doubtful accounts as of June 30, 2010.

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.

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

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.

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

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 BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Other Accounting Policies, Continued

The City has restricted cash and investments to satisfy bond issue requirements. The City also has restricted cash accounts related to their use for bond payments and capital expenditures.

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

2. CASH AND INVESTMENTS

Credit Risk

The City has not adopted a formal policy on managing credit risk; however, allowable investments under state law limit credit risk exposure. Under Kentucky Revised Statute 66.480, the City is allowed to invest in obligations of the U.S. and of its agencies, obligations backed by the full faith and credit of the U.S. or a U.S. government agency, obligations of any corporation of the U.S. government, certificates of deposit or other interest-bearing accounts issued by institutions insured by the Federal Deposit Insurance Corporation (FDIC) or similarly collateralized institutions, and bonds and securities of states, local governments, or related agencies in the U.S. rated in one of the three highest categories by a nationally recognized rating agency.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The following considers this type of risk for the City's investments and deposits as of June 30, 2010.

Investments in U.S. government obligations, which amounted to \$346,617, were held by the counterparty and carry the implicit guarantee of the U.S. government.

The City's bank deposits were substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$16,173,717, and the bank balances totaled \$16,990,807. Petty cash is maintained by various departments and totaled \$2,295.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

3. CAPITAL ASSETS

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

	Balance July 1, 2009	Additions	Deductions	June 30, 2010
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,052,134	\$ -	\$ -	\$ 4,052,134
Construction in Progress (CIP)	2,726,690	934,049	604,847	3,055,892
Capital assets that are depreciated:				
Buildings and Improvements	5,771,880	-	-	5,771,880
Land Improvements	677,330	-	-	677,330
Vehicles	3,380,180	462,670	68,970	3,773,880
Equipment	2,030,668	121,234	-	2,151,902
Totals	<u>18,638,882</u>	<u>1,517,953</u>	<u>673,817</u>	<u>19,483,018</u>
Infrastructure Assets	<u>6,813,859</u>	<u>369,101</u>	<u>-</u>	<u>7,182,960</u>
Total Capital Assets	<u>25,452,741</u>	<u>1,887,054</u>	<u>673,817</u>	<u>26,665,978</u>
Less Accumulated Depreciation:				
Buildings and Improvements	3,046,082	225,568	-	3,271,650
Land Improvements	81,880	16,933	-	98,813
Vehicles	2,083,319	235,762	65,269	2,253,812
Equipment	1,036,749	171,189	-	1,207,938
Infrastructure Assets	<u>520,333</u>	<u>219,563</u>	<u>-</u>	<u>739,896</u>
Totals	<u>6,768,363</u>	<u>869,015</u>	<u>65,269</u>	<u>7,572,109</u>
Depreciable capital assets, net	<u>\$ 18,684,378</u>	<u>\$ 1,018,039</u>	<u>\$ 608,548</u>	<u>\$ 19,093,869</u>
Business-Type Activities				
Land, Buildings and Easements	\$ 1,922,125	\$ -	\$ -	\$ 1,922,125
Electric system	9,988,712	480,328	-	10,469,040
Water system	8,416,567	246,438	-	8,663,005
Plant and sewer system	25,724,539	1,833,710	-	27,558,249
Vehicle and equipment	957,560	143,384	-	1,100,944
Construction in Progress	<u>3,386,429</u>	<u>6,005,105</u>	<u>307,222</u>	<u>9,084,312</u>
Total	<u>50,395,932</u>	<u>8,708,965</u>	<u>307,222</u>	<u>58,797,675</u>
Less Accumulated Depreciation	<u>14,473,199</u>	<u>1,564,251</u>	<u>-</u>	<u>16,037,450</u>
Capital Assets Net	<u>\$ 35,922,733</u>	<u>\$ 7,144,714</u>	<u>\$ (307,222)</u>	<u>\$ 42,760,225</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 74,665
Police	139,774
Fire	121,155
Public Works	108,452
Codes enforcement	6,572
Parks and recreation	365,204
Sanitation	12,167
GIS/Surveying	14,919
Tourism	26,107
Total Depreciation Expense	<u>\$ 869,015</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

3. CAPITAL ASSETS (CONTINUED)

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

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

4. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT

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

	June 30, 2009	Additions	Deletions	June 30, 2010
Revenue bonds payable	\$ 17,250,000	\$ -	\$ 805,000	\$ 16,445,000
Notes payable	5,734,161	3,479,923	234,026	8,980,058
Compensated absences	<u>138,497</u>	<u>13,011</u>	<u>-</u>	<u>151,508</u>
Total debt outstanding	<u>\$ 23,122,658</u>	<u>\$ 3,492,934</u>	<u>\$ 1,039,026</u>	<u>\$ 25,576,566</u>
Less current portion of:				
Revenue bonds				\$ 835,000
Notes payable				<u>5,136,372</u>
Current portion				<u>5,971,372</u>
Total long term obligation				<u>\$ 19,605,194</u>

BONDS PAYABLE

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

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

	Principal	Interest	Total
2011	\$ 835,000	\$ 654,027	\$ 1,489,027
2012	865,000	628,977	1,493,977
2013	890,000	599,783	1,489,783
2014	925,000	568,633	1,493,633
2015	955,000	535,103	1,490,103
2015-20	5,390,000	2,070,315	7,460,315
2021-2025	<u>6,585,000</u>	<u>870,489</u>	<u>7,455,489</u>
Total	<u>\$16,445,000</u>	<u>\$ 5,927,327</u>	<u>\$22,372,327</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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, 2010, the depreciation fund had a balance of \$1,643,254.

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, 2010, the debt service fund had a balance of \$19,603.

NOTES 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, 2010, the City had a balance of \$4,080,058 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
2011	\$ 236,372	\$ 40,211	\$ 8,042	\$ 284,625
2012	238,742	37,841	7,568	284,151
2013	241,135	35,448	7,090	283,673
2014	243,553	33,031	6,606	283,190
2015	245,994	30,589	6,118	282,701
2016-20	1,267,439	115,477	23,090	1,406,006
2021-25	1,332,300	50,636	10,129	1,393,065
2026	<u>274,523</u>	<u>2,061</u>	<u>413</u>	<u>276,997</u>
Total	<u>\$ 4,080,058</u>	<u>\$ 345,294</u>	<u>\$ 69,056</u>	<u>\$ 4,494,408</u>

On January 1, 2009, the City of Berea entered into a loan assistance agreement with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. The loan is not to exceed \$5,000,000. As of June 30, 2010 the City had received \$4,900,000 in loan proceeds. Interest payments began December 2009. Principal payments begin once the project is complete. The loan calls for a \$250,000 repairs and maintenance reserve.

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, 2010, the total liability for compensated absences was \$151,508 for the business type activities.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT

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

	June 30, 2009	Additions	Deletions	June 30, 2010
Leases payable	\$ 8,276	\$ 9,188	\$ 9,103	\$ 8,361
Park bonds payable	3,810,000	-	620,000	3,190,000
Note payable	672,862	-	275,000	397,862
Compensated absences	<u>456,154</u>	<u>18,677</u>	<u>-</u>	<u>474,831</u>
Total debt outstanding	<u>\$ 4,947,292</u>	<u>\$ 27,865</u>	<u>\$ 904,103</u>	<u>\$ 4,071,054</u>
Less current portion of:				
Leases payable				\$ 4,225
Park bonds				645,000
Note payable				<u>-</u>
Current portion				<u>649,225</u>
Total long term obligation				<u>\$ 3,421,829</u>

LEASES PAYABLE

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

- 1) **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 \$2,387 at June 30, 2010 to be paid out March 2011.
- 2) **Office Equipment Rental Company-** The City entered into a capital lease for a copier for the tourism department on September 25, 2008. The term of the lease is 60 months with monthly payments of \$153. The outstanding balance due is \$5,974 at June 30, 2010 to be paid out October 2013.

Year Ending June 30	
2011	\$ 4,225
2012	1,838
2013	1,838
2014	<u>460</u>
Total leases payable	<u>\$ 8,361</u>

PARK BOND PAYABLE

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.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

5. GOVERNMENTAL ACTIVITIES LONG –TERM DEBT (CONTINUED)

PARK BOND PAYABLE, Continued

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 schedule below shows the City's total net general obligation debt service.

	Principal	Interest	Total
2011	\$ 210,000	\$ 22,345	\$ 232,345
2012	215,000	13,633	228,633
2013	<u>225,000</u>	<u>4,613</u>	<u>229,613</u>
Total	<u>\$ 650,000</u>	<u>\$ 40,591</u>	<u>\$ 690,591</u>

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.

	Principal	Interest	Total
2011	\$ 435,000	\$ 66,060	\$ 501,060
2012	445,000	55,277	500,277
2013	455,000	43,572	498,572
2014	225,000	34,168	259,168
2015	235,000	27,382	262,382
2016-18	<u>745,000</u>	<u>36,761</u>	<u>781,761</u>
Total	<u>\$ 2,540,000</u>	<u>\$ 263,220</u>	<u>\$ 2,803,220</u>

NOTE PAYABLE – NEW INDUSTRIAL PARK

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

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, 2010, the total liability for compensated absences was \$474,831 for the governmental activities.

CITY OF BERA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

6. RETIREMENT PLAN

CERS

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

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

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

Contributions – For the year ended June 30, 2010, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2010, participating employers contributed 16.16% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 1,032,600	100%
2009	\$ 878,800	100%
2008	\$ 884,500	100%

457(b)

In addition, the City of Berea offers the 457(b) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 32 participants in the plan. Employees can contribute 100% of includible compensation up to \$16,500 and an additional \$5,500 if 50 or older. During the fiscal year employees contributed \$71,855 to the plan.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

6. RETIREMENT PLAN (CONTINUED)

ICMA

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

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

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

7. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2010 were levied in November 2009 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

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

Description of project	June 30, 2010
Water Plant	\$ 8,730,355
US N Trunk Sewer Extension	216,331
Terrill Branch Extension	104,866
Reservoir project	<u>32,760</u>
Total construction in progress	<u>\$ 9,084,312</u>

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

8. CONSTRUCTION IN PROGRESS (CONTINUED)

The City is in progress on the following governmental projects:

Description of project	June 30, 2010
Park Improvement Project	\$ 2,217,562
Parks Planning	313,824
US 25 North	230,800
Bratcher Lane	87,834
Shared Use Path	93,096
Folk Center Renovation	9,800
Chestnut Street Curbs	21,919
Parker Seal Study	9,084
Rebuilding of McKinney, Brenwood	<u>71,973</u>
Total construction in progress	<u>\$ 3,055,892</u>

9. NON EXCHANGE TRANSATIONS

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 \$1,777,636 and was added to the Commission's capital assets. Also, during the year, the BMU received connection fees totaling \$68,463 from customers connecting to the system, as well as \$57,796 from customers for reimbursements consisting mainly of trench fees relating to the installation of underground electric utilities. Both developer contributions and connection fees are accounted for as nonoperating revenue.

10. RISK MANAGEMENT

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

11. COMMITMENTS AND CONTINGENCIES

The City made a \$5,000 deposit on 13.5 acres of land. A title search revealed a potential issue with the deed. The City still plans to pursue the purchase with a remaining balance owed of \$50,000. This amount is not accrued as of June 30, 2010.

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

12. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

13. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through September 29, 2010, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2010, have not been evaluated by the City.

SUPPLEMENTAL INFORMATION

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 525,640	\$ 537,000	\$ 576,882	\$ 39,882
State assessment property taxes	11,600	2,000	6,555	4,555
In lieu of property tax	8,000	8,000	21,640	13,640
Delinquent property taxes	10,000	7,000	9,243	2,243
Bank deposit taxes	55,940	56,414	56,414	-
Motor vehicle taxes	23,000	30,000	35,770	5,770
Penalties and interest	2,500	2,000	6,690	4,690
	<u>636,680</u>	<u>642,414</u>	<u>713,194</u>	<u>70,780</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	500,000	600,000	771,917	171,917
Employee withholding	4,300,000	4,000,000	4,631,576	631,576
Net profits	300,000	300,000	295,406	(4,594)
Individual	14,000	14,000	7,636	(6,364)
Business	-	1,200	1,065	(135)
Regulated licenses	10,500	4,000	4,220	220
Penalty and interest	10,000	200	540	340
Utility franchise fees	850,000	876,754	946,356	69,602
Building permits	30,000	30,000	29,481	(519)
Electric permits	50,000	30,000	19,708	(10,292)
	<u>6,064,500</u>	<u>5,856,154</u>	<u>6,707,905</u>	<u>851,751</u>
CHARGES FOR SERVICE				
Court costs & fees	43,000	43,000	55,468	12,468
Accident reports	1,100	1,500	1,288	(212)
Burning permits	200	200	5	(195)
Street cut permits	2,000	2,000	2,157	157
Codes - plat review fee	4,000	4,000	4,719	719
GIS mapping fees	1,000	1,000	24	(976)
Demolition cleanup	2,000	2,000	-	(2,000)
Parks concessions	15,000	15,000	20,083	5,083
Pool concessions	30,000	30,000	26,000	(4,000)
Swimming pool fees	65,000	50,000	62,724	12,724
Softball fees	1,000	2,000	1,350	(650)
Miscellaneous	2,500	2,625	3,044	419
	<u>166,800</u>	<u>153,325</u>	<u>176,862</u>	<u>23,537</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Parking fines	\$ 5,000	\$ 15,707	\$ 21,148	\$ 5,441
 INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	72,782	2,782
Madison County grants	55,500	55,500	55,500	-
Other grants	15,500	6,500	6,169	(331)
Police incentive pay	89,900	89,900	104,126	14,226
Fire incentive pay	55,000	55,000	66,124	11,124
	<u>285,900</u>	<u>276,900</u>	<u>304,701</u>	<u>27,801</u>
 OTHER REVENUE				
Rental income	57,700	55,700	59,063	3,363
Interest income	201,000	201,000	109,891	(91,109)
Insurance proceeds	60,000	156,408	43,837	(112,571)
Miscellaneous	7,125	8,677	31,884	23,207
	<u>325,825</u>	<u>421,785</u>	<u>244,675</u>	<u>(177,110)</u>
 OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	17,155	17,155
Transfers in (out)	<u>(1,686,465)</u>	<u>(1,802,569)</u>	<u>(996,954)</u>	<u>805,615</u>
	<u>(1,686,465)</u>	<u>(1,802,569)</u>	<u>(979,799)</u>	<u>822,770</u>
 TOTAL REVENUE	 <u>\$ 5,798,240</u>	 <u>\$ 5,563,716</u>	 <u>\$ 7,188,686</u>	 <u>\$ 1,624,970</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
Administration				
Personnel	\$ 284,800	\$ 284,800	\$ 261,206	\$ (23,594)
Commodities	22,200	22,200	17,979	(4,221)
Contractual	41,050	41,050	33,282	(7,768)
City Council				
Personnel	56,840	56,840	54,256	(2,584)
Contractual	123,220	137,363	112,783	(24,580)
Finance Office				
Personnel	215,220	238,700	205,528	(33,172)
Commodities	40,600	40,600	20,848	(19,752)
Contractual	141,700	151,700	74,700	(77,000)
Building Maintenance				
Personnel	36,130	36,130	34,639	(1,491)
Commodities	19,500	19,500	16,418	(3,082)
Contractual	51,300	58,300	54,543	(3,757)
Building Maintenance-Annex				
Personnel	16,800	19,901	20,373	472
Contractual	33,800	33,800	23,828	(9,972)
General Services				
Contractual	597,180	597,280	495,060	(102,220)
Total Administration	<u>1,680,340</u>	<u>1,738,164</u>	<u>1,425,443</u>	<u>(312,721)</u>
POLICE				
Administration				
Personnel	368,415	403,415	377,934	(25,481)
Commodities	11,500	17,500	23,065	5,565
Contractual	56,545	56,545	37,211	(19,334)
Police Patrol				
Personnel	1,586,744	1,586,744	1,500,522	(86,222)
Commodities	126,325	120,325	122,275	1,950
Contractual	21,400	21,400	21,707	307
Police Training				
Commodities	8,800	8,800	8,820	20
Contractual	10,500	10,500	8,234	(2,266)
Total Police Department	<u>2,190,229</u>	<u>2,225,229</u>	<u>2,099,768</u>	<u>(125,461)</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FIRE				
Administration				
Personnel	\$ 82,864	\$ 82,864	\$ 101,662	\$ 18,798
Commodities	4,850	4,850	3,179	(1,671)
Contractual	4,600	4,600	1,535	(3,065)
Fire Suppression				
Personnel	1,014,087	1,014,087	1,125,148	111,061
Commodities	83,400	83,400	56,099	(27,301)
Contractual	60,750	60,750	38,196	(22,554)
Fire Training				
Commodities	9,800	9,800	2,089	(7,711)
Contractual	8,000	8,000	3,237	(4,763)
Total Fire Department	<u>1,268,351</u>	<u>1,268,351</u>	<u>1,331,145</u>	<u>62,794</u>
STREETS				
Personnel	747,916	747,916	693,304	(54,612)
Commodities	332,200	350,900	237,452	(113,448)
Contractual services	222,600	212,600	192,398	(20,202)
Total Street Department	<u>1,302,716</u>	<u>1,311,416</u>	<u>1,123,154</u>	<u>(188,262)</u>
CODES ENFORCEMENT				
Personnel	254,820	233,800	211,865	(21,935)
Commodities	15,400	12,200	10,305	(1,895)
Contractual	67,125	65,300	34,517	(30,783)
Total Codes Enforcement	<u>337,345</u>	<u>311,300</u>	<u>256,687</u>	<u>(54,613)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	210,866	208,866	220,210	11,344
Commodities	119,200	116,000	76,519	(39,481)
Contractual services	112,650	114,750	120,114	5,364
Pool				
Personnel	111,803	114,800	76,470	(38,330)
Commodities	57,500	60,300	44,050	(16,250)
Contractual services	51,500	49,550	29,964	(19,586)
Intergenerational Center				
Contractual services	30,200	33,200	19,840	(13,360)
Total Parks and Recreation	<u>693,719</u>	<u>697,466</u>	<u>587,167</u>	<u>(110,299)</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 108,610	\$ 108,610	\$ 104,065	\$ (4,545)
Commodities	14,150	14,150	7,447	(6,703)
Contractual services	<u>25,200</u>	<u>25,200</u>	<u>11,757</u>	<u>(13,443)</u>
Total GIS/Surveying	<u>147,960</u>	<u>147,960</u>	<u>123,269</u>	<u>(24,691)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	62,510	62,510	63,060	550
Commodities	4,300	4,700	1,862	(2,838)
Contractual services	<u>10,000</u>	<u>10,000</u>	<u>4,805</u>	<u>(5,195)</u>
Total Business Development	<u>76,810</u>	<u>77,210</u>	<u>69,727</u>	<u>(7,483)</u>
CAPITAL OUTLAY				
Administration	360,200	190,200	-	(190,200)
Police	135,400	118,400	102,443	(15,957)
Fire	248,700	248,700	204,969	(43,731)
Streets	69,900	65,900	-	(65,900)
Codes enforcement	2,000	1,500	-	(1,500)
Parks and recreation	113,100	67,500	26,932	(40,568)
GIS/Surveying	<u>36,300</u>	<u>27,300</u>	<u>25,772</u>	<u>(1,528)</u>
Total Capital Outlay	<u>965,600</u>	<u>719,500</u>	<u>360,116</u>	<u>(359,384)</u>
DEBT SERVICE				
	<u>-</u>	<u>-</u>	<u>5,889</u>	<u>5,889</u>
TOTAL EXPENDITURES	<u>\$ 8,663,070</u>	<u>\$ 8,496,596</u>	<u>\$ 7,382,365</u>	<u>\$ (1,114,231)</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2010

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 535,732	\$ 530,732	\$ 521,031	\$ (9,701)
Commodities	43,300	199,300	58,724	(140,576)
Contractual	<u>365,300</u>	<u>387,800</u>	<u>300,686</u>	<u>(87,114)</u>
	<u>944,332</u>	<u>1,117,832</u>	<u>880,441</u>	<u>(237,391)</u>
Electric				
Personnel	539,991	539,991	499,835	(40,156)
Commodities	7,616,100	7,230,100	7,173,320	(56,780)
Contractual	<u>211,700</u>	<u>208,200</u>	<u>77,739</u>	<u>(130,461)</u>
	<u>8,367,791</u>	<u>7,978,291</u>	<u>7,750,894</u>	<u>(227,397)</u>
Water				
Personnel	421,212	430,212	451,433	21,221
Commodities	121,800	211,300	219,425	8,125
Contractual	<u>578,850</u>	<u>502,350</u>	<u>443,624</u>	<u>(58,726)</u>
	<u>1,121,862</u>	<u>1,143,862</u>	<u>1,114,482</u>	<u>(29,380)</u>
Sewer				
Personnel	420,412	420,412	402,120	(18,292)
Commodities	75,000	68,800	55,427	(13,373)
Contractual	<u>311,700</u>	<u>314,800</u>	<u>340,948</u>	<u>26,148</u>
	<u>807,112</u>	<u>804,012</u>	<u>798,495</u>	<u>(5,517)</u>
Total Expenditures	<u>\$ 11,241,097</u>	<u>\$ 11,043,997</u>	<u>\$ 10,544,312</u>	<u>\$ (499,685)</u>

**CITY OF BEREA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2010**

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Renaissance /Chestnut St. Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2010 Total	2009 Total
ASSETS																
Cash and cash equivalents	\$ 281,345	\$ 247,151	\$ 78,394	\$ 778	\$ 68,896	\$ 62,383	\$ 21	\$ 32,664	\$ 34,147	\$ 7,974	\$ 5,933	\$ 13,824	\$ 10,098	290	\$ 843,898	\$ 1,039,248
Investments	-	603,826	251,496	-	-	-	-	-	-	-	-	-	-	-	855,322	100,000
Accounts receivable	-	163,575	-	6,000	-	-	-	-	-	-	96,000	-	40,118	20,029	325,722	548,167
Interest receivable	-	723	268	-	-	-	-	-	-	-	-	-	-	-	991	2,576
Other assets	-	-	-	-	-	-	-	-	-	52,733	-	-	-	-	52,733	-
Due from other fund	854	-	71,200	-	-	438	-	-	46,050	-	330,975	9,169	-	-	458,686	377,747
Total assets	\$ 282,199	\$ 1,015,275	\$ 401,358	\$ 6,778	\$ 68,896	\$ 62,821	\$ 21	\$ 32,664	\$ 80,197	\$ 60,707	\$ 432,908	\$ 22,993	\$ 50,216	\$ 20,319	\$ 2,537,352	\$ 2,067,738
LIABILITIES AND FUND BALANCE																
Liabilities																
Accounts payable	\$ -	\$ 33,127	\$ -	\$ 6,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201,191	\$ -	\$ 50,147	20,029	\$ 310,494	\$ 493,611
Due to other fund	-	707,766	-	-	-	-	-	-	-	-	-	-	-	-	707,766	486,431
Total liabilities	-	740,893	-	6,000	-	-	-	-	-	-	201,191	-	50,147	20,029	1,018,260	980,042
Fund balance	282,199	274,382	401,358	778	68,896	62,821	21	32,664	80,197	60,707	231,717	22,993	69	290	1,519,092	1,087,696
Total liabilities and fund balances	\$ 282,199	\$ 1,015,275	\$ 401,358	\$ 6,778	\$ 68,896	\$ 62,821	\$ 21	\$ 32,664	\$ 80,197	\$ 60,707	\$ 432,908	\$ 22,993	\$ 50,216	\$ 20,319	\$ 2,537,352	\$ 2,067,738

CITY OF BEREA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2010

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Debt Service Fund	Infrastructure Assessment Fund	Renaissance/ Chestnut St. Fund	Park Improvement Fund	Capital Projects Fund	Mayde Road Fund	Prospect St. Upgrade Fund	US 25 North Fund	2010 Total	2009 Total
REVENUES																
Municipal Taxation	\$ 185,357	\$ 955,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,140,404	\$ 927,308
Intergovernmental revenues	-	30,803	-	170,921	7,281	31,378	-	-	-	-	-	-	40,118	88,181	368,682	755,661
Other revenues	917	5,606	6,382	12	-	112	-	82	86	717	96,049	-	-	-	109,963	8,623
Total revenues	186,274	991,456	6,382	170,933	7,281	31,490	-	82	86	717	96,049	-	40,118	88,181	1,619,049	1,691,592
EXPENDITURES																
Current																
General administration	-	-	-	-	-	-	-	-	-	114	14,226	-	-	10	14,350	35
Police department	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	54,109
Fire department	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street department	292,988	-	-	170,321	-	-	-	-	-	-	-	-	-	-	463,309	231,263
Parks and recreation	-	-	-	-	-	-	-	-	-	-	9,073	-	-	-	9,073	2,550
Tourism	-	739,011	-	-	-	-	-	-	-	-	8,850	-	-	-	747,861	641,695
Industrial Development	-	-	5,891	-	-	-	-	-	-	-	-	-	-	-	5,891	-
State Contracts	-	-	-	-	-	-	-	-	-	-	43,176	-	50,147	-	93,323	611,207
Capital outlay	-	9,188	-	-	889	-	-	-	-	474,409	343,034	-	-	94,571	922,091	465,013
Debt service	-	3,213	303,623	-	-	-	726,860	-	-	6,592	-	-	-	-	1,040,288	496,909
Total expenditures	292,988	751,412	309,514	170,321	889	-	726,860	-	-	481,115	418,359	-	50,147	94,581	3,296,186	2,502,781
Excess revenues over (under) expenditures before other sources (uses)	(106,714)	240,044	(303,132)	612	6,392	31,490	(726,860)	82	86	(480,398)	(322,310)	-	(10,029)	(6,400)	(1,677,137)	(811,189)
Other financing sources																
Lease proceeds	-	9,188	-	-	-	-	-	-	-	-	-	-	-	-	9,188	-
Proceeds from sale of assets	-	-	250,000	-	-	-	-	-	-	-	-	-	-	-	250,000	-
Transfers from other funds	-	(201,403)	100,000	-	(6,390)	-	726,860	-	-	12,650	225,000	(100,000)	80,000	6,690	843,407	788,004
Excess revenues and other sources over (under) expenditures	(106,714)	47,829	46,868	612	2	31,490	-	82	86	(467,748)	(97,310)	(100,000)	69,971	290	(574,542)	(23,185)
Fund balances, July 1, 2009	388,913	226,553	354,490	166	68,894	31,331	21	32,582	80,111	528,455	329,027	122,993	(69,902)	-	2,093,634	1,110,881
FUND BALANCES- JUNE 30, 2010	\$ 282,199	\$ 274,382	\$ 401,358	\$ 778	\$ 68,896	\$ 62,821	\$ 21	\$ 32,664	\$ 80,197	\$ 60,707	\$ 231,717	\$ 22,993	\$ 69	\$ 290	\$ 1,519,092	\$ 1,087,696

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

Mayor and the City Council
City of Berea
Berea, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
September 29, 2010

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

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

Compliance

We have audited the compliance of the City of Bereа, with the types of compliance requirements described in the **U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement** that are applicable to each of its major federal programs for the year ended June 30, 2010. The City of Bereа's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Bereа's management. Our responsibility is to express an opinion on City of Bereа's compliance based on our audit.

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

In our opinion, the City of Bereа complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the City of Bereа is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Bereа's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Bereа's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

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

Ray, Foley, Hensley & Company
Ray, Foley, Hensley & Company, PLLC
September 29, 2010

CITY OF BEREA, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2010

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Expenditures
Environmental Protection Agency, Capitalization Grants for Drinking Water State Revolving Funds, Loan Proceeds Pass-Through Kentucky Infrastructure Authority	66.468		07/01/09-06/30/10	\$ <u>2,535,756</u> *
US Department of Transportation Pass-Through Commonwealth of KY, Transportation Cabinet				
Highway Planning and Construction	20.205		07/01/09-06/30/10	\$ 40,118
State and Community Highway Safety	20.600		07/01/09-06/30/10	\$ <u>3,169</u>
				\$ <u>43,287</u>
Department of Justice, Project Safe Neighborhoods, Pass-Through Central Kentucky Area Drug Task Force	16.609		07/01/09-06/30/10	\$ <u>1,141</u>
Federal Emergency Management Agency, Disaster Grants Public Assistance (Presidentially Declared Disasters)	97.036		07/01/09-06/30/10	\$ <u>55,593</u>
 Total				 \$ <u>2,635,777</u>

***Denotes Major Program**

Basis of Presentation

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

**CITY OF BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2010**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNo

Non-compliance material to financial statements noted __Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNone reported

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

Unqualified for all major programs.

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

__Yes XNo

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

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

\$ 300,000

Auditee qualified as a low-risk auditee?

__Yes XNo

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE