

**REPORT OF THE AUDIT OF
KENTUCKY ARTISAN CENTER AT BEREA**

**For The Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors
Kentucky Artisan Center at Berea
P.O. Box 280
Berea, Kentucky 40403

We have audited the accompanying financial statements of the Kentucky Artisan Center at Berea, a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Kentucky Artisan Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Artisan Center as of June 30, 2006, and the 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 accompanying Management Discussion and Analysis is not a required part of the basic financial statements but is 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 the methods of measurement and presentation of the required 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 our report dated October 6, 2006 on our consideration of the Kentucky Artisan Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 6, 2006

**KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management's discussion and analysis of the financial performance of the Kentucky Artisan Center at Berea (Center) provides an overview of the financial activities of the Center for the year ended June 30, 2006, and should be read in conjunction with the financial statements.

The Center was created as an economic development initiative to encourage educational and cultural activities, public gatherings, cultural heritage tourism, and retail sales of Kentucky artisan arts and crafts. The operations of the Center began in July of 2003. Highway signage added in late May 2005 has resulted in the Center also serving as a traveler center for the state of Kentucky.

The Center is accounted for as an enterprise fund, reporting on all of the activity's assets and liabilities using the economic resources measurement focus and accrual basis of accounting much like a private business activity. Because the Center provides a financial benefit to the Commonwealth of Kentucky, it is being reported in the Commonwealth's reporting entity in the Comprehensive Annual Financial Report (CAFR) as a discretely presented component unit. This annual report consists of a series of financial statements, along with explanatory notes to the financial statements and supplemental schedules.

Financial Highlights

- FY 2006 retail sales of artisan products totaled \$1,351,979, an increase of \$221,241 (21%) over FY 2005 sales.
- FY 2006 was the first full year of café operations handled by the Center. Receipts for FY 2006 were \$313,668. Receipts for the period of January 2006 through June 2006, the only period comparable with the Center's partial FY 2005 operations, were nearly the same as reported for FY 2005 (i.e., less than 1% decrease), despite significant competition with the opening of a Cracker Barrel and Cedar Village Buffet at Berea Exit 77.
- During FY 2006, visitation at the Center totaled 199,745, an increase of 65,724 people or 49% over FY 2005's total of 134,021. Much of this increase can be attributed to new interstate highway signage promoting the Center as a Travelers' Center. The sign had been installed in late FY 2005 (May 2005). In addition, the Center continues to experience returning visitors and business.

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Overview of Financial Statements

The Statement of Net Assets presents information on all of the Center's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents information showing how the Center's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows presents the receipts and usage of cash and cash equivalents. Only transactions that affect the Center's cash account typically are reported in the Statement of Cash Flows.

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the statements.

Financial Analysis

Net assets may serve over time as a useful indicator of the Center's financial position. For the fiscal year ended June 30, 2006, assets exceeded liabilities by \$8,602,559. The largest portion (95%) of the Center's assets reflects its investment in capital assets (i.e., land, buildings, equipment, and fixtures). (see Figure A)

Total Assets

Total assets consist primarily of cash and cash equivalents, investments, inventories, and capital assets.

Capital Assets

With its opening in FY 2004, the Center's investment in capital assets was substantial. Funding for the purchase of significant capital assets was provided by the Commonwealth of Kentucky, as part of the biennial budget, appropriated by the legislature in 1998 and 2000. Capital assets include buildings, kitchen equipment, maintenance equipment, decorative window panels, furnishings, retail fixtures, and data processing equipment. During FY 2006 the Center's capital asset additions totaled \$62,310, and include the costs for materials and labor for the installation of the Center's illuminated signage.

Capital assets net of accumulated depreciation amount to \$8.3 million. See Note 4 for additional information related to capital assets.

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Total Liabilities

Liabilities totaled \$146,845 and include accounts payable, compensated absences, and deferred revenue. Deferred revenues consist of unexpired gift certificates collected in FY 06 for events that will be held in FY 07. The noncurrent liability is the estimated payable for the employees' compensated absences. The increase in short-term and long-term compensated absences (\$46,588) may be attributed to the annual leave and compensatory leave accumulations during FY 2006, as well as the change in the factor used in calculating the estimate. During FY 2006, the Center increased its permanent staffing to the approved June 30, 2006 capacity of 33 full-time, 8 part-time, and 10 interim staff in response to increased visitation and retail sales. Some of the staff have been employed for three years. As such, the cost of the employee-related benefits has risen. See Notes 5 and 6 for additional information related to liabilities.

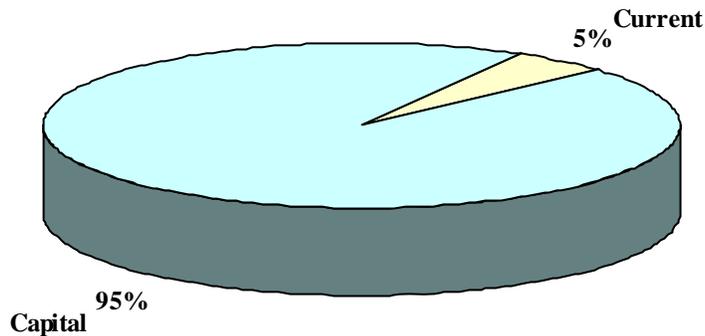
Table 1 below presents the Center's condensed statement of net assets as of June 30, 2006, and June 30, 2005, derived from the Statement of Net Assets for the respective years.

Table 1
Condensed Statement of Net Assets
As of June 30

	<u>2006</u>	<u>2005</u>	Percentage Increase (Decrease)
Current assets	\$ 444,860	\$ 1,040,400	-57.2%
Capital Assets-net	8,304,544	8,390,840	-1.0%
Total Assets	<u>8,749,404</u>	<u>9,431,240</u>	-7.2%
Current liabilities	112,787	90,768	24.3%
Non-current liabilities	34,058	4,865	600.1%
Total liabilities	<u>146,845</u>	<u>95,633</u>	53.6%
Investment in capital assets, net of related debt	8,304,544	8,390,840	-1.0%
Unrestricted	298,015	944,767	-68.5%
Total net assets	<u>\$ 8,602,559</u>	<u>\$ 9,335,607</u>	-7.9%

**KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Figure A
Kentucky Artisan Center at Berea
Assets**



Operating and Nonoperating Revenues

Revenues generated from the Center's sales and services of Kentucky artisan arts and crafts and Café operations totaled \$1,665,647 for FY 2006, an increase of \$366,236 (or 28.2%) over FY 2005 revenues. The Center received state appropriations totaling \$156,200, of which \$90,000 supported the Center's personnel services for serving as a welcome center to the Commonwealth of Kentucky. Non-operating revenues include interest income of \$57,752.

Operating and Nonoperating Expenses

During FY 2006, the Center took responsibility for many administrative duties previously handled by Department of Parks staff in Frankfort, including payroll data entry and the complete processing of invoices. The majority of operating expense is attributable to payroll costs (\$927,904 or 40%) and costs of sales (\$807,853 or 35%) (see Figure C). The increases in personnel costs (30.4%) and costs of sales (24.1%) are the result of the Center's increased visitation and increased sales, as well as its first full year operation of its Café. Expenses for utilities and advertising totaled \$97,436 and \$90,174, respectively. Additional expenses totaling \$221,567 were paid in FY 2006, including the costs of supplies (\$68,431), repairs and maintenance (\$40,273), telecommunications and computer services (\$30,993), as well as costs (totaling \$81,870) for banking and financial services, professional fees, travel, rentals, and postage.

During FY 2006, the Center capitalized the costs for materials and labor (\$62,310) for the installation of the Center's new illuminated signage, visible from Interstate 75. In accordance with the state's fixed asset capitalization policy, asset purchases costing less than \$5,000 were expensed. Equipment, furniture, and fixture purchases falling below the \$5,000 threshold during the fiscal year totaled \$10,623. Straight-line depreciation expense for FY 2006 totaled \$148,606.

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Tables 2 and 3 below present the Center's condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets for the years ended June 30, 2006, and June 30, 2005, and Operating Expenses.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30

	<u>2006</u>	<u>2005</u>	Percentage Increase (Decrease)
Operating Revenues:			
Charges for Sales and Services	\$ 1,665,647	\$ 1,299,411	28.2%
Operating Grants	156,200	90,000	73.6%
Total Operating Revenues	<u>1,821,847</u>	<u>1,389,411</u>	31.1%
Total Operating Expenses	<u>2,304,163</u>	<u>1,899,890</u>	21.3%
Operating Income (Loss)	<u>(482,316)</u>	<u>(510,479)</u>	-5.5%
Nonoperating Revenues (Expenses)	(250,732)	(96,193)	-360.7%
Income Before Contributions	<u>(733,048)</u>	<u>(414,286)</u>	76.9%
Capital Contributions	-	-	
Net Assets, beginning of year	<u>9,335,607</u>	<u>9,749,893</u>	-4.2%
Net Assets, end of year	<u>\$ 8,602,559</u>	<u>\$ 9,335,607</u>	-7.9%

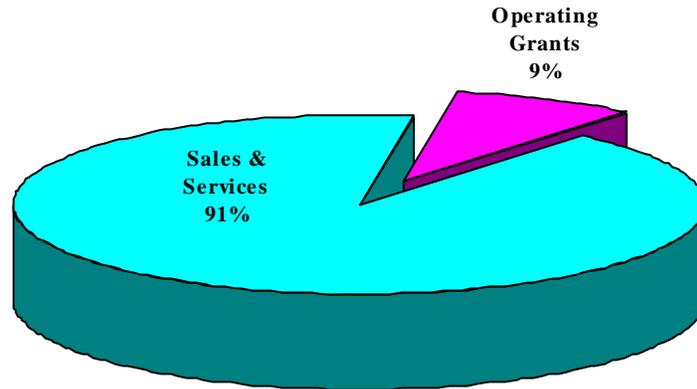
KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 3
Condensed Financial Information
Operating Expenses
For the Years Ended June 30

	<u>2006</u>	<u>2005</u>	Percentage Increase (Decrease)
Operating expenses:			
Personnel services	\$ 927,904	\$ 711,577	30.4%
Cost of goods sold	807,853	651,160	24.1%
Depreciation expense	148,606	142,374	4.4%
Utilities and other services	97,436	59,797	62.9%
Advertising and promotions	90,174	89,575	0.7%
Supplies	68,431	63,888	7.1%
Repairs and Maintenance	40,273	6,838	489.0%
Telecommunications and Computer Services	30,993	23,635	31.1%
Banking and Financial Services	26,484	21,488	23.2%
Professional fees	24,858	86,143	-71.1%
Equipment, furniture, and fixtures	10,623	14,875	-28.6%
Travel	10,611	12,205	-13.1%
Other general expenses	6,945	1,444	381.1%
Rentals	6,738	8,904	-24.3%
Postage	6,234	5,987	4.1%
Total Operating Expenses	<u>\$ 2,304,163</u>	<u>\$ 1,899,890</u>	21.3%

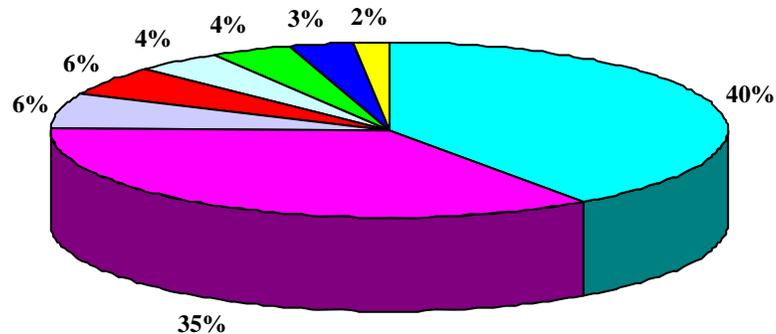
**KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**

**Figure B
Kentucky Artisan Center at Berea
Revenue Sources**



**Figure C
Kentucky Artisan Center at Berea
Operating Expenses
FYE 6/30/06**

	<u>2006</u>	<u>Percentage</u>
Operating expenses:		
Personnel services	\$ 927,904	40%
Cost of goods sold	807,853	35%
Depreciation expense	148,606	6%
Other general expenses	123,486	6%
Utilities and other services	97,436	4%
Advertising and promotions	90,174	4%
Supplies	68,431	3%
Repairs and maintenance	40,273	2%
Total Operating Expenses	\$2,304,163	100.0%



KENTUCKY ARTISAN CENTER at BERA
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Economic Factors

The Center anticipates receipt of an additional \$300,000 state financial assistance in FY 2007 for the cost of operations. Operating expenses will be closely monitored by the Center in order to maximize operating profits while continuing to provide exemplary services.

The Center does not anticipate making any capital construction budget requests in FY 2007, but will continue to work towards the establishment of a maintenance pool. With the Center's added promotion as a travel Center, the Center is experiencing increased equipment replacement costs and operating expenses

Requests for Information

This financial report is designed to provide the public and other interested parties with an overview of the financial results of the Center's activities and to show the Center's accountability for the revenue that it generates. If you have any questions about this report or need additional financial information, contact the Kentucky Artisan Center at Berea, 975 Walnut Meadow Road, Berea, KY 40403, or by phone: 859-985-5448 or email: Victoria.Faoro@ky.gov.

BASIC FINANCIAL STATEMENTS

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF NET ASSETS
June 30, 2006

ASSETS

Current assets:

Cash and Cash Equivalents	\$ 14,245
Investments	55,724
Inventories	374,891
Total current assets	<u>444,860</u>

Noncurrent assets:

Capital Assets (Note 4):

Land	1,166,778
Building	6,569,676
Equipment	640,965
Fixtures	359,504
Less: Accumulated depreciation	<u>(432,379)</u>
Total noncurrent assets	8,304,544

Total Assets

	<u><u>8,749,404</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	62,060
Compensated absences	50,347
Deferred revenue	380
Total current liabilities	<u>112,787</u>

Noncurrent liabilities:

Compensated absences	<u>34,058</u>
Total noncurrent liabilities	34,058

Total Liabilities

	<u><u>146,845</u></u>
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NET ASSETS

Invested in Capital Assets, net of related debt	8,304,544
Unrestricted	298,015

Total Net Assets

	<u><u>\$ 8,602,559</u></u>
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The accompanying notes are an integral part of the financial statements.

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For The Year Ended June 30, 2006

Operating Revenues:	
Charges for Sales and Services	\$ 1,665,647
Operating Grants	<u>156,200</u>
Total Operating Revenues	1,821,847
Operating Expenses:	
Personnel services	927,904
Cost of Sales	807,853
Depreciation Expense	148,606
Utilities and other services	97,436
Advertising and Promotion	90,174
Supplies	68,431
Repairs and Maintenance	40,273
Telecommunications & Computer Services	30,993
Banking & Financial Services	26,484
Professional Fees	24,858
Equipment, Furniture, and Fixtures	10,623
Travel	10,611
Other General Expenses	6,945
Rentals	6,738
Postage	<u>6,234</u>
Total Operating Expenses	2,304,163
Operating income (loss)	<u><u>(482,316)</u></u>
Nonoperating revenues (expenses):	
Interest Income	<u>57,752</u>
Total nonoperating revenues	57,752
Income (loss) before budget reduction initiative	(424,564)
Budget Reduction Initiative	<u>(308,484)</u>
Change in Net Assets	(733,048)
Net Assets, July 1, 2005	<u>9,335,607</u>
Net Assets, June 30, 2006	<u><u>\$ 8,602,559</u></u>

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

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from customers	\$ 1,665,647
Cash received from operating grants	156,200
Cash payments to suppliers and services	(1,205,493)
Cash payments for personnel services	(927,904)
Net cash provided by (used in) operating activities	<u>(311,550)</u>
Cash flows from noncapital financing activities:	
Budget reduction initiative	<u>(308,484)</u>
Net cash provided by (used in) noncapital activities	<u>(308,484)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(62,310)</u>
Net cash provided by (used in) capital and related financing activities	<u>(62,310)</u>
Cash flows from investing activities:	
Proceeds from the sale of investments	455,001
Interest and dividends on investments	<u>57,752</u>
Net cash provided by (used in) investing activities	<u>512,753</u>
Net increase (decrease) in cash and cash equivalents	<u>(169,591)</u>
Cash and Cash Equivalents, July 1, 2005	<u>183,836</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 14,245</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ (482,316)
Adjustments to Reconcile operating loss to net cash used in operating activities:	
Depreciation	148,606
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Inventories	(29,052)
Increase (decrease) in liabilities:	
Accounts Payable	5,107
Deferred Revenue	(482)
Other Liabilities - Compensated Absences	46,587
Net cash provided by operating activities	<u>\$ (311,550)</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

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KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 1 - Organization

The Kentucky Artisan Center at Berea (Center) was created during the Governor Paul E. Patton Administration as an economic development initiative. Executive Order 99-331 established the Center for the purpose of hosting various educational exhibitions, public gatherings, cultural activities, generating retail sales of arts and crafts, and hosting other cultural activities for the state of Kentucky. The Center is designed to be an economic generator both on site through sales and throughout the state through referrals and information provided. Products sold are all made in Kentucky and include crafts, arts, specialty foods, music recordings, videotapes, and books.

The Center also maintains and operates the Café, located within the facility. During FY 2005, the Center took over the operations and staffing for the Café, previously operated under vendor contract during FY 2004.

The Center is a state authority that was originally administratively attached to the Tourism Development Cabinet and is now attached to the Department of Parks in the Commerce Cabinet.

The funds for construction of the site were appropriated by the Kentucky legislature in 1998 and 2000. The development of the Center and the oversight of its activity is provided by a thirteen (13) member board of directors, the Kentucky Artisan Center at Berea Authority Board, and assisted by numerous partnerships among cabinets within state government, with city and county government, with colleges, with other organizations and agencies, and with individuals interested in the Center's mission and goals.

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

In accordance with the requirements of the Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organization are Component Units*, the Center has adopted the provisions under which the financial statements include all the organizations, activities, functions, and component units for which the Center is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 2 - Summary of Significant Accounting Policies (Continued)

The Center has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Center's financial statements. In addition, since the Center provides a financial benefit for the Commonwealth of Kentucky, the Center is part of the reporting entity of the Commonwealth of Kentucky and is, therefore, included in the Commonwealth's Annual Financial Report as a discretely presented component unit. The accompanying financial statements are not intended to present the financial position or the results of operations and cash flows of the Commonwealth of Kentucky or its proprietary funds.

Basis of Accounting

The Center's financial statements are prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Center are discussed below.

The financial statements of the Center have been presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Accordingly, revenues are recognized when they are earned and become measurable, and expenses are recognized at the time liabilities are incurred.

Financial Statements

The Statement of Net Assets presents the Center's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories:

1. **Invested in capital assets, net of related debt**, consist of capital assets, net of accumulated depreciation and further reduced by debt net of cash balances, for debt related to the acquisition, construction, or improvement of those assets.
2. **Restricted net assets** result from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
3. **Unrestricted net assets** are those net assets that do not meet the definition of restricted net assets or invested in capital assets.

**KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (Continued)

The accompanying Statement of Revenues, Expenses, and Changes in Net Assets reports revenues and expenses as either operating or non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the ongoing operations. The principal operating revenues of the Center are charges to customers for sales of Kentucky made products, as well as income derived from Café operations. Operating expenses include the cost of sales and services, selling and administrative expenses, marketing expenses and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accompanying Statement of Cash Flows presents the Center's receipt and usage of cash and cash equivalents during the year.

Use of Estimates

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

Cash and Cash Equivalents

The Kentucky Artisan Center currently uses a commercial bank for depositing funds received from daily activity. These funds are then electronically transferred to the Commonwealth of Kentucky's depository. For financial statement purposes, the Center considers all highly liquid investments with maturity of three months or less to be cash equivalents.

Investments

The Center participates in the Commonwealth of Kentucky's investment pool, which holds investments both for its own benefit and as an agent for other related parties. Investments are valued at their fair values in the Statement of Net Assets. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Revenues, Expenses, and Changes in Fund Net Assets.

Inventories

Inventories primarily consist of merchandise and food for resale and include Kentucky artisan crafts, arts, specialty foods, music recordings, videotapes, and books. Inventories are valued at average cost as of June 30, 2006. Average cost for all items is updated continuously by the Center's point of sale software.

**KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006**

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, are carried at cost less accumulated depreciation. The Center capitalizes capital assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. All land and infrastructure is capitalized. Buildings and equipment are capitalized when the acquisition cost is \$5,000 or greater.

Depreciation on capital assets is computed using the straight-line depreciation method over their estimated useful lives of the assets. The following table summarizes the estimated useful lives used in computing depreciation:

<u>Asset</u>	<u>Useful Life</u>
Buildings and Improvements	10 - 75 years
Machinery and Equipment	3 - 25 years
Furniture and Fixtures	3 - 25 years

Deferred Revenue

Deferred revenues are treated as liabilities until the revenue recognition requirements are met.

Note 3 - Cash, Cash Equivalents, and Investments

The Center participates in the Commonwealth of Kentucky's cash and investment pool, which is available for use by all funds and component units under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. Therefore, it follows the Commonwealth's policies for all pooled cash and investments. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. As of June 30, 2006, the carrying value of the Center's pooled cash and cash equivalents totaled \$14,245, and the fair value of the Center's investments was \$55,724.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 1,166,778	\$ -	\$ -	\$ 1,166,778
Total nondepreciable capital assets	1,166,778	-	-	1,166,778
Capital Assets being depreciated:				
Building	6,569,676			6,569,676
Equipment	640,965			640,965
Fixtures	297,194	62,310		359,504
Total Capital Assets being depreciated	7,507,835	62,310	-	7,570,145
Less: Accumulated Depreciation for:				
Building	175,645	88,311		263,956
Equipment	64,797	32,398		97,195
Fixtures	43,331	27,897		71,228
Total Accumulated Depreciation	283,773	148,606	-	432,379
Net Capital Assets	\$ 8,390,840	\$ (86,296)	\$ -	\$ 8,304,544

Depreciation expense for the year ended 2006 was \$148,606.

Note 5 - Disaggregation of Accounts Payable

Accounts payable are amounts owed by the Center as of June 30, 2006. The liabilities will be paid within one year and are therefore considered current. The following table shows the disaggregation of the amounts reported as accounts payable as of June 30, 2006.

Current Payables	
Personnel Services	\$ 49,666
Merchandise for Resale	3,096
Other	9,298
Total Current Payables	\$ 62,060

**KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006**

Note 6 - Compensated Absences

The Center follows the policy of the Commonwealth of Kentucky to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15 hours per month, determined by the length of service, with maximum accumulations ranging from 30 to 60 days. The estimated liability and change in the estimated liability for compensated absences from the Center as of June 30, 2006 are:

	Beginning			Ending	Amount
	Balance	Additions	Reductions	Balance	Due
					Within
					One Year
Annual Leave	\$ 35,969	\$ 24,485	\$ 12,974	\$ 47,480	\$ 28,322
Compensatory Leave	1,848	67,119	32,042	36,925	22,025
Total	<u>\$ 37,817</u>	<u>\$ 91,604</u>	<u>\$ 45,016</u>	<u>\$ 84,405</u>	<u>\$ 50,347</u>

It is the policy of Department of Parks to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. Sick leave accumulated in excess of six months is added to an employee's years of service at the time of retirement. There is no liability recorded for sick leave at June 30, 2006. The estimated accumulated unused sick leave for the Center employees at June 30, 2006 was \$60,043.

Note 7 - Retirement Plan and Employee Benefit Plan

All full-time employees of the Center who work more than one hundred hours per month participate in a multiple-employer, cost sharing defined benefit pension plan, the Kentucky Employees Retirement Systems (KERS), administered by the Board of Trustees of Kentucky Retirement Systems. The payroll for the Center covered by the KERS for the year ended June 30, 2006, totaled approximately \$654,932.

Employees who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.2% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after twenty-seven years of service and receive full benefits; or retire after age 55 and receive reduced benefits. The KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

**KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006**

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

As required by the Kentucky Revised Statutes, employees must contribute 5% of their salary to the KERS. In addition, the Statute requires all participating KERS agencies to contribute 5.89% of the covered employees' eligible salary. The contribution requirement for the year ended June 30, 2006 was \$60,819, consisting of \$32,894 from the Center and \$27,925 from employees.

The ten-year historical trend information showing KERS progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Employees Retirement System's Annual Financial Report. That report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 696-8800 or (800) 928-4646. Additional disclosures related to the defined benefit plan are also included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

In addition to the above defined benefit pension plan, full-time employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are defined as Section 457 and Section 401(k) plans under the Internal Revenue Code. Both plans permit employees to defer a portion of their annual salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. Audited financial statements may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862. Additional disclosures related to these plans are also included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report.

Note 8 - Related Parties

On occasion, board members or their organizations, colleges, or governmental units will use the Center's private dining and conference rooms at no charge. In addition, by statute two members of the Authority Board are on the staff of Berea College, and the Center purchases items for resale from Berea College's Crafts Program. The College regularly sells work wholesale to other retailers.



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors
Kentucky Artisan Center at Berea
P.O. Box 280
Berea, Kentucky 40403

George Ward
Secretary, Commerce Cabinet

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the Kentucky Artisan Center, a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 6, 2006. 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 Kentucky Artisan Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed in Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kentucky Artisan Center'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 the Kentucky Artisan Center Commission, Kentucky Artisan Center management, and the Kentucky Commerce Cabinet, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
October 6, 2006

