



City of Berea

Independent Auditors' Report

And Financial Statements

For The Year Ended

June 30, 2018

City of Berea, Kentucky
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INDEPENDENT AUDITORS' REPORT

The Honorable Stephen Connelly, Mayor
City Council
City of Berea, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension and OPEB schedules on pages 3-16, 54-58 and 59-62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for forming opinions on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The combining financial schedules and budgetary comparison information on pages 63-65 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 66 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining fund financial schedules, the proprietary budgetary comparison schedules, and the schedule of expenditures of federal awards are the responsibility of management, were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the City of Berea, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Berea, Kentucky's internal control over financial reporting and compliance.

Baldwin CPA's, PLLC

Baldwin CPA's, PLLC
Richmond, Kentucky
October 15, 2018

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, 2018. Please read the following in conjunction with the auditors' report on page 1-2 and the City's financial statements, which begin to appear on page 17.

OVERVIEW OF THIS ANNUAL REPORT

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

The City's financial statements present two kinds of statements, each with a different snapshot of the City's finances. The focus of these statements is both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund financial statements focus on the individual funds of the City, reporting the City's operations in more detail than the government-wide statements. Both perspectives (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison (year to year or government to government) and enhance the City's accountability.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies. One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position 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. 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 position of the City and the changes in them. One can think of the City's net position—the resources the City has left over after its debts are settled—as one way to measure financial health or financial position. Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in property tax rates or valuation, infrastructure asset condition, and new or changed government legislation.

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

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

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

FUND FINANCIAL STATEMENTS

The fund financial statement presentation focuses on the City's funds. They provide more information about the City's funds and not the City as a whole.

The City has two kinds of funds:

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

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

Table 1
Net Position

	Governmental Activities	Business-type Activities	2018 Total Primary Government	2017 Total Primary Government
Current Assets	\$ 14,662,466	\$ 12,231,185	\$ 26,893,651	\$ 24,052,493
Capital Assets	35,861,782	40,256,566	76,118,348	71,451,652
Other Noncurrent Assets	-	3,220,044	3,220,044	3,259,205
Total Assets	50,524,248	55,707,795	106,232,043	98,763,350
Deferred Outflows of Resources	4,888,635	2,271,458	7,160,093	3,656,383
Total Assets and Deferred Outflow of Resources	\$ 55,412,883	\$ 57,979,253	\$ 113,392,136	\$ 102,419,733
Current Liabilities	\$ 940,615	\$ 4,714,297	\$ 5,654,912	\$ 6,832,743
Long-term Liabilities	26,337,416	18,050,303	44,387,719	36,115,523
Total Liabilities	27,278,031	22,764,600	50,042,631	42,948,266
Deferred Inflows of Resources	1,155,557	409,009	1,564,566	-
Net Position:				
Invested in Capital Assets				
Net of Related Debt	24,390,472	25,728,453	50,118,925	48,954,078
Restricted	578,939	2,492,669	3,071,608	3,097,186
Unrestricted	2,009,884	6,584,522	8,594,406	10,956,882
<i>Adjustment to Net Position</i>	-	-	-	(3,536,679)
Total Net Position	26,979,295	34,805,644	61,784,939	59,471,467
Total Liabilities and Net Position	\$ 55,412,883	\$ 57,979,253	\$ 113,392,136	\$ 102,419,733

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Effective for 2018, GASB Statement No. 75 requires the City of Berea to report the costs and obligations associated with other postemployment benefits (OPEB) which employees will receive at retirement. This new standard required the City to recognize a net OPEB liability, OPEB expense and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amount from the Kentucky County Employees Retirement System. Information necessary to meet the new reporting requirement for the current year was provided by the Kentucky Retirement System. However, information necessary to restate the all values for the prior year were not provided. A \$3,536,679 adjustment to the prior year's ending net position was made to represent the total retroactive effects of the application of

GASB 75. This is important to note as we compare current year and prior year balances since there were no adjustments to the prior year statement of net position or statement of activities.

The City's total assets increased by over \$7.5 million. Nearly two-thirds of this increase was a result of capital asset additions. The completion of the new City Hall, increased capital assets by \$3.9 million. In addition, current assets increased as a result of the bond proceeds received, but not yet spent, related to the City Hall project.

Current year deferred outflows of resources increased by nearly \$3.8 million. Of this increase, \$1.4 million is a result OPEB liabilities being recognized in fiscal year 2018, but not in fiscal year 2017. Deferred outflows of resources increased by nearly \$2.5 million as a result of changes in the pension liability.

Completion of the new City Hall resulted in approximately \$10.4 million of new debt from a 40-year loan from USDA Rural Development. Additionally, net pension liability increased by \$2.8 million, and the addition of the net OPEB liability increased total liabilities by another \$4.8 million. These increases in liabilities were offset by principal payments of \$6,478,709 on the City's existing bonds and notes, which resulted in an overall increase in long term liabilities of \$12 million. Current liabilities, consisting primarily of accounts payable, decreased by nearly \$1.2 million, due the completion of the City Hall project.

Deferred inflows of resources increased by \$1.5 million. Changes in deferred inflows of resources are a result of changes in the pension and OPEB liabilities.

Overall, the assets and deferred outflows of the City of Berea exceeded liabilities by \$61,784,939. This was a 4 percent increase in net position from the adjusted net position of the prior fiscal year. However, 50 percent of the increase is a result of the City's investment in capital assets. Although the investments in capital assets are reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources. An additional \$3,071,608 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$8,594,406 is unrestricted. The City's unrestricted portion of total net position increased by approximately \$1.7 million over the prior year's adjusted unrestricted portion.

Further details of the changes in net position between 2018 and 2017 can be observed in Table 2.

Table 2
Changes in Net Position

	Governmental Activities	Business-type Activities	2018 Total Primary Government	2017 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 348,705	\$ 18,986,594	\$ 19,335,299	\$ 16,725,571
Operating Grants & Contributions	787,181	-	787,181	887,327
Capital Grants & Contributions	1,326,515	433,404	1,759,919	460,382
General Revenue			-	
Taxes	2,188,881	-	2,188,881	2,157,652
License fees	9,911,538	-	9,911,538	10,411,545
Permits	110,539	-	110,539	169,731
Investment Earnings	59,640	48,528	108,168	100,199
Other Revenues	251,157	-	251,157	259,001
Total Revenues	14,984,156	19,468,526	34,452,682	31,171,408
<u>Program Expenses</u>				
General Government	2,292,539	-	2,292,539	1,867,882
Public Safety - Police	2,851,966	-	2,851,966	2,907,299
Public Safety - Fire	2,511,088	-	2,511,088	1,836,059
Public Works	2,718,945	-	2,718,945	2,188,802
Codes enforcement	565,225	-	565,225	440,699
Parks and Recreation	997,769	-	997,769	1,116,129
GIS/Surveying	198,132	-	198,132	199,842
Business Development	169,430	-	169,430	95,990
Tourism	1,354,663	-	1,354,663	1,240,008
Information Technology	201,858	-	201,858	154,973
State Contracts	77,463	-	77,463	103,203
Interest on Long-term Debt	187,427	-	187,427	61,779
Utilities	-	17,803,780	17,803,780	16,411,767
Total Program Expenses	14,126,505	17,803,780	31,930,285	28,624,432
Gain/(Loss) on Sale of Property	(258,925)	50,000	(208,925)	(728,015)
Change in Net Position	\$ 598,726	\$ 1,714,746	\$ 2,313,472	\$ 1,818,961

Governmental Activities

Governmental activities increased the City's total net position by \$598,726. Overall, governmental revenue was up by approximately \$455,000 from the previous year. Several revenue sources fund City's governmental activities with occupational license fees being the largest source. While occupational license fees on wages held stable with a slight increase of one percent, occupational license fees on net profits fell considerably (40%) between 2018 and 2017. This decrease was not unexpected, however. Fiscal years 2016 and 2017 saw sharp increases in occupational license fees primarily due to net profits from large construction projects, such as the

\$70 million Berea College Science Building and the New City Hall. With completion of those projects, occupational license fees from net profits has returned to levels consistent with 2015, as expected. Other sources of revenue such as building, electrical and mechanical permits also decreased as a result of the completion of these projects. Most other sources of general revenue remained relatively flat, either increasing or decreasing by only a percentage or two.

General fund capital grants and contributions grew by over \$1 million. This source of funding will vary year by year. During 2018, the City's most significant grant revenue was for equipment for the Fire Department. A \$400,000 grant was received toward the purchase of a combination ladder/tanker truck, as well as a donation of a 2017 Dodge Ram 5500 truck valued at \$47,504. Both were provided by the Chemical Stockpile Emergency Preparedness Program.

In addition, the City received contributed capital valued at \$588,000 for city streets, curbs and gutters within the Vineyard Subdivision. Once accepted, the City takes over maintenance of this infrastructure.

Total program expenses increased by \$1.9 million. The largest increase was within the general government function, which showed an approximately \$425,000 increase. The City's change in net position above includes a number of expenses which are not cash expenditures of the City. Changes in the net pension and OPEB liabilities are amortized across a prescribed number of years and not cash expenditures of the City. Changes in net pension liability and OPEB liabilities attributed to nearly \$900,000 of increased expenses shown above. Additionally, depreciation expense is also included in the change of net position. Depreciation expense recognizes the cost of capital assets over the useful life of the asset, instead of recognizing the expense when the purchase occurred. The increase in depreciation expense accounts for another \$175,000 of the increase in program expenses.

Also included in the change in net position of governmental activities is a loss of \$258,925 on the sale of property. This represents a number of upgrades to City Hall in 2002 and 2005. With the remodel and expansion of City Hall, these upgrades no longer had a future value or useful life. As such, they were removed from the City's asset list and show a loss for the portion that had not been depreciated in prior years. This is also a non-cash transaction, as the expenditure for these upgrades had occurred in year's past.

A more detailed explanation of cash expenditures is provided in the following analysis of governmental fund activities.

Business-type Activities

Business-type activities increased the City's net position by \$1.7 million. Revenue from the sale of electric increased by \$2.2 million. There was no electric rate increase during the year, however there were increases from Kentucky Utilities that were passed along to electric customers through the power cost adjustment mechanism. This increase, as well as an increase in consumption from temperature variations account for the majority of the increase in revenue from the sale of electric.

Revenue from the sale of water increased by 4 percent (approx.. \$130,000). A rate increase, effective mid-year, accounts for the majority of this increase. Sewer rates also increased due to a rate increase at mid-year. Sewer revenue increased approximately \$260,000 (10%).

Berea Municipal Utilities continues to receive grant funding for a number of projects. Revenue from funding will vary each year depending on the active projects and the funding available. Approximately \$270,000 in grant funds were received from the Kentucky Infrastructure Authority for a long-term project in which the Owsley Fork Dam would be reinforced and expanded to compound more water. Owsley Fork Lake is the primary source for Berea's drinking water. This expansion will ensure the water supply is sufficient for any potential growth within the City or southern Madison County. Berea Municipal Utilities also received grant funds for approximately \$102,000 from Kentucky Infrastructure Authority for the Central Park North improvements to the sewer force main and pump station. These improvements will ensure the sewer system is sufficient to handle development in the Exit 77 area.

Total operating expenses for business-type activities increased by \$1.4 million. Expenses within the electric division accounts for just over \$1 million of this increase. This is to be expected based on the increase in electric revenue, as the purchase of electricity is in direct correlation to the amount of electricity sold. Also included in the increase are expenses related to the April 2018 snow storm which left many Berea customers without power. This resulted in the need for outside assistance and higher than usual over-time expenses. Additionally, pension and OPEB expenses also attribute an additional \$340,000 of the increase in expenses across each division. Other increases in sewer, water and administration are modest, reflecting typical increases in personnel and supply costs.

GOVERNMENTAL ACTIVITIES

As noted earlier, the City of Berea uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources. Governmental funds are accounted for using the modified accrual basis of accounting. Under this basis of accounting, many of the non-cash expenses previously discussed are not included as expenditures in the change in fund balance. Conversely, principal portions of debt obligations along with capital outlay expenditures are included on the fund statements, whereas they are not included in the change in net position.

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

Table 3
Change in Fund Balance

	2018	2017
Revenues		
Taxes	\$ 2,188,881	\$ 2,157,652
Licenses and permits	10,022,079	10,581,276
Charges for Services	348,705	344,838
Fines & Forfeits	44,323	56,911
Intergovernmental	1,525,692	1,133,837
Other Revenues	<u>266,472</u>	<u>254,565</u>
Total Revenues	<u>14,396,152</u>	<u>14,529,079</u>
Expenditures		
General Government	1,822,903	1,979,957
Public Safety - Police	2,614,131	2,587,246
Public Safety - Fire	1,814,062	1,561,712
Public Works	1,872,388	1,735,047
Codes Enforcement	431,999	397,663
Parks and Recreation	709,258	681,472
GIS/Surveying	141,179	179,736
Business Development	138,335	91,288
Information Technology	195,282	144,682
Tourism	1,191,398	1,159,399
State Contracts	77,463	103,203
Capital Outlay	7,097,849	7,494,931
Debt Service	<u>10,027,247</u>	<u>385,593</u>
Total Expenditures	<u>28,133,494</u>	<u>18,501,929</u>
Excess revenues over (under) before other sources (uses)	<u>(13,737,342)</u>	<u>(3,972,850)</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	39,008	63,296
Financing proceeds	<u>15,598,582</u>	<u>4,388,228</u>
Total Other Financing Sources (Uses)	<u>15,637,590</u>	<u>4,451,524</u>
Net Change in Fund Balance	<u>\$ 1,900,248</u>	<u>\$ 478,674</u>

Total fund balance for all governmental funds has increased by \$1.9 million (16%) from the prior year. General Fund increase in fund balance totals \$1,852,604. Tourism's fund balance increased by \$139,500. The fund balances for Municipal Road Aid decreased by \$112,885 as funds received in the prior year were used to complete the South Cumberland/Hughes drainage project. The Craft Festival fund balance increased by \$26,730.

As previously discussed, governmental revenue remained relatively consistent with the prior year. Decreases in occupational license fees from net profits were offset by increases in grant funding. Total governmental expenditures increased by \$9.6 million. However, the increase is solely due to the proceeds from the issuance of debt for the new City Hall. In the absence of debt service,

governmental expenditures decreased by roughly \$10,000. Spending on capital outlay decreased by over \$397,000 as the City Hall project came to completion. Departmental spending increased by approximately 4 percent. Public works and Fire saw the largest increases, both due to increased personnel. Administration saw a \$157,000 decrease.

BUDGET HIGHLIGHTS

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

The budget contains proposed expenditures and expected revenues. A comparison of the final general fund amended budget to actual amounts for general fund activities is presented in the table below (Tables 4 & 5).

Table 4
General Fund Revenue
Budget to Actual

	Budget	Actual	Variance
Taxes	\$ 833,344	\$ 880,791	\$ 47,447
Licenses, Permits & Billings	8,076,700	10,022,077	1,945,377
Charges for Services	129,755	166,913	37,158
Fines & Forfeitures	27,100	40,461	13,361
Intergovernmental	973,500	1,119,833	146,333
Other Revenue	157,675	198,821	41,146
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 10,198,074	\$ 12,428,896	\$ 2,230,822

Table 5
General Fund Expenditures
Budget to Actual

	Budget	Actual	Variance
Administration	\$ 1,926,688	\$ 1,811,836	\$ (114,852)
Police	2,892,500	2,599,873	(292,627)
Fire	1,954,500	1,814,062	(140,438)
Public Works	2,163,053	1,719,071	(443,982)
Codes Enforcement	494,269	431,999	(62,270)
Parks & Recreation	890,289	709,258	(181,031)
GIS/Surveying	202,763	141,179	(61,584)
Information Technology	203,213	195,282	(7,931)
Business Development	191,517	138,335	(53,182)
Capital Outlay	8,250,850	6,780,353	(1,470,497)
Debt Service	9,767,055	9,922,636	155,581
	<u>\$ 28,936,697</u>	<u>\$ 26,263,884</u>	<u>\$ (2,672,813)</u>
Total Expenditures	<u>\$ 28,936,697</u>	<u>\$ 26,263,884</u>	<u>\$ (2,672,813)</u>

The City tends to budget for revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. As a result, the City's revenue exceeded budgeted amounts by \$2,230,822 or 18 percent. Of this, \$1.9M is attributed to the collection of occupational license fees in excess of budgeted amounts.

The City tends to budget expenditures based on realistic estimates of expenses, but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As a result, the City's expenditures were \$2,672,813 or 9 percent below budgeted amounts. Of this, \$1.5 million was attributed to projects or other capital purchases included in the budget but did not reach fruition in the fiscal year. An additional \$500,000 resulted from personnel and related costs falling under budget due to vacant positions and reduced overtime across many departments. While debt service is shown to be over budget by \$155,580, this is a reflection of a clerical error during the budgeting process and not unanticipated spending.

CAPITAL ASSETS

The City of Berea's investments in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2018, totals \$76,118,348, a 7 percent increase from the prior year. Major capital asset transactions during the year include:

- Completion of the expanded City Hall facility with a total project cost of \$12,180,411 over a multi-year period, \$5,051,801 of which was expended during fiscal year 2018. Total project cost includes \$589,150 of equipment, furnishings and fixtures.
- Purchase of a 2017 E-One Typhoon Fire Truck for \$718,767. The Chemical Stockpile Emergency Preparedness Program contributed \$400,000 toward the purchase of this apparatus. In addition, the truck was fully equipped with advanced rescue equipment totaling \$108,850.
- Acceptance of contributed city streets valued at \$540,000. Streets included were portions of Sterling Drive, Chardonnay Way, Merlot Court and Vineyard Way within the Vineyard Subdivision.

- Completion of the drainage project on South Cumberland and Hughes Avenues with a total project cost of \$362,399 over a multi-year period, \$241,309 of which was expended during fiscal year 2018.
- Purchase of a 2019 7400 International Dump Truck/Snow Plow for \$146,814 for public works.
- Purchase of three police vehicles for a total cost of \$99,423.
- Purchase of 2018 International 4300 Bucket Truck for \$214,453 for the electric division of Berea Municipal Utilities.
- Completion of the Farristown Sewer Rehab project with a total project cost of \$197,717 over a multi-year period, \$186,717 of which was expended during fiscal year 2018.
- Purchase of a 2019 7400 International Dump Truck for \$128,850 for Berea Municipal Utilities water and sewer divisions.

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

Table 6
Capital Assets

	Governmental	Business-type	2018	2017
	Activities	Activities	Total	Total
			Primary	Primary
			Government	Government
Land, Buildings & Improvements	\$ 25,018,018	\$ 2,977,549	\$ 27,995,567	\$ 16,907,362
Construction in Progress	624,827	2,297,423	2,922,250	9,754,117
Infrastructure/Utility Plant	15,101,212	64,112,104	79,213,316	77,905,458
Vehicles, Equipment & Other	9,754,408	2,976,286	12,730,694	10,388,394
Total Capital Assets	<u>50,498,465</u>	<u>72,363,362</u>	<u>122,861,827</u>	<u>114,955,331</u>
Less Accumulated Depreciation	(14,636,683)	(32,106,796)	(46,743,479)	(43,503,679)
Total Net Capital Assets	<u>\$ 35,861,782</u>	<u>\$ 40,256,566</u>	<u>\$ 76,118,348</u>	<u>\$ 71,451,652</u>

DEBT

The City's long term debt at June 30, 2018, totaled \$46,071,541, which was a \$4,716,716 (7%) increase during the fiscal year. During 2017, the City borrowed \$4,388,228 million on a \$9.9 million bond anticipation note for construction of the new City Hall. In 2018, a bond issued by USDA Rural Development for \$10,402,000. The proceeds of this bond issue were used to pay off the principal on the bond anticipation note.

Also contributing to the increase in the City's debt is a \$2.9 million increase in the net pension liability. The addition of the net OPEB liability, increased the City's debt by another \$4.9 million.

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

Table 7
Long Term Debt

	Governmental	Business-type	2018	2017
	Activities	Activities	Total	Total
			Primary	Primary
			Government	Government
Leases	\$ 1,069,310	\$ -	\$ 1,069,310	\$ 1,144,095
Bonds Payable	10,402,000	9,045,000	19,447,000	10,465,000
Loans Payable	-	5,362,219	5,362,219	10,246,142
Net Pension Liability	10,444,165	3,753,794	14,197,959	11,301,398
Net OPEB Liability	3,601,574	1,274,772	4,876,346	-
Compensated Absences	897,147	221,560	1,118,707	1,003,614
Total Debt Outstanding	\$ 26,414,196	\$ 19,657,345	\$ 46,071,541	\$ 34,160,249

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 2019 Budget for the City of Berea shows the financial strength and progressive nature of the City and its leaders. The budget demonstrates the strength and operational support for our personnel, infrastructure improvements, capital purchases and day to day maintenance and operations monies for all departments of the City.

The 2019 Budget continues to financially support the Fund Balance Reserve and the Capital Sinking Fund. The Fund Balance Reserve is set at \$2,700,000. The monies in the Capital Reserve Fund represent two months of the City's operating expenses, excluding any capital expenditures for projects or equipment. The 2019 budget adds an additional \$600,000 to the Capital Sinking Fund. The fund balance for the Capital Sinking Fund is set at \$2,850,000. Monies placed in the two reserve funds are not budgeted and will require a budget amendment passed by Council before any of this money may be spent.

In addition to the use of these two investment tools the City still has an overall conservative approach to budgeting. The General Fund budget has a projected ending fund balance of \$850,037.00. Combining the two reserve funds and the unallocated balance the 2019 budget expresses a total unbudgeted reserve of \$6,400,037. Preservation of the City's cash reserves remain a high priority for the City's staff. Purchases are made strictly on a cash balance basis. The General Fund balances is monitored daily and projections are made as to when the cash flow will be available to make infrastructure improvements and when to purchase capital items such as rolling stock.

The City's major sources of revenue continue to be the Occupational Licenses Fee, Insurance Premium tax, Franchise Fees, Net Profits and the collection of Property Tax. The collection of Occupational Licenses Fees continues to grow. This growth is an excellent indicator of the economic stability of our community. Job growth is not only growing in the industrial sector but also our commercial sector. Both areas of growth can be attributed to the enhanced outreach of the City's Industrial development and economic development teams.

The prospect of future industrial growth remains high as we continue to work with The State Economic Development Cabinet to market the Menelaus Road Industrial Park to new industrial clients. The City Council placed \$75,000. in the 2019 budget to cover the anticipated cost for evaluating the current conditions of the Menelaus Road Industrial Park and to create a master plan for the Menelaus and remaining property in the Mayde Road Parks. Existing industry remains the hope for Berea. One of our existing industries is poised to announce a multi-million dollar expansion which would add an additional two hundred jobs. Another of Berea's existing industries is speaking of another building expansion with the addition of new jobs. Both of these industries speak of their confidence in the City of Berea and the work force with which they are familiar with. The infusion of a new capital investment dollars into existing industrial infrastructure greatly improves the availability of job opportunities as well as the City's tax base and such growth helps to influence the State's Transportation Cabinet to release funds for the building of the second phase of the Berea Bypass

The 2018 Budget included the funds for the construction and completion of the Police, Fire and Municipal Building or The New City Hall. Seven City Departments moved into the new building in March 2018. The construction of City Hall was financed by a Rural Development Loan. The loan is in the amount of \$10,400,000, to be paid over a term of 40 years. The City also has a loan with People's Bank of Madison County in the amount of \$1,000,000. The Tolle Building was purchased two years ago with these loan proceeds. The note is being paid with Tourism Funds since the Tolle property will become the offices of Berea's Tourism Department. The repayments of these loan amounts do not place any undue financial pressure on the General Fund of the City of Berea.

One of the biggest challenges of budgeting each year is how to plan for the unknown. We routinely plan for challenges that are fairly specific but it is hard to predict the frequency of weather related catastrophes, equipment loss or the loss of revenue by virtue of a business closing. We try to hedge ourselves against such challenges through the accumulation of reserve funds and operating on our cash flow. The present budget prepares us for more of the unknowns giving us more of a reserve to face the challenges of the unknown. In light of Berea's financial history and our projections, the revenue estimates remain at or near the level of the previous budget with the exception of the Occupational Licenses Fees that have been increased based on its historical growth. The management of the City does recognize that the potential of future revenue growth in this area is linked to the world economy and that present industry may be reaching their full production and employment capacities.

One factor that most threatens the financial integrity of the City is our ability to provide wages and a benefits package for our employees that is competitive with the private sector. The potential overhaul of the Kentucky Retirement System will have a great influence on the City's ability to hire talented individuals at a market rate that is competitive with the private sector. Presently, the accounting standards have imposed a mandatory statement of pension liability that is now included on our balance sheet making our financial outlook appear to be weaker than it would otherwise.

As with previous years, infrastructure improvements remain the focus of the Berea Municipal Utilities. Top priority is the building of the 595-Central Park force main from the Walnut Meadow Pump Station to the Sewer Plant. This project will allow for more capacity in the present collection system allowing for development in the area, particularly the build out of the Central Park Subdivision.

The 2019 budget provides funds for the 1016 sewer line extension. The cost of this project is high, only to service up to ten customers but the improved sanitary conditions for the area will be greatly improved. The major focus of activity for the water utility is the continued planning for the upgrade including increased capacity of the Owsley Fork Dam. BMU has achieved a major goal as NRCS has announced a grant of \$949,474 for the design of the Owsley Fork Dam. The design will occur during the 2019 fiscal year. No major projects will take place during this fiscal year for our electric infrastructure upgrades with the exception of routine maintenance. Rates for Sewer and Water remains unchanged in the present budget year with electric increasing by four per cent as a result of our purchase power contract with KU. Berea's contract with KU ends in May of 2019. A contract with AMP Ohio has already been signed and the agreed upon price will provide a savings to the utilities.

The 2019 Budget carried over many of the infrastructure projects that were contained in the 2018 Budget. The US-25 reconstruction project is well underway and is expected to be completed by mid-summer of 2019. This is an eight million dollar infrastructure improvement to the City of Berea paid for by KYTC funds. Phase three of the Indian Fort Trail will be completed by the end of 2018. The completion of this phase of the Indian Fort Trail gives the City a marketable tourist attraction as well as a local community path. The 2019 budget makes monies available for the Brushy Fork Path and the design of the Scaffold Cane Path. The Scaffold Cane Path will address the most unsafe pedestrian-way in the City of Berea. This budget also provides for the replacement of the playground equipment in the City Park.

The present budget demonstrates the continued financial strength of the City by relying on the administration's devotion to careful management of revenues in relation to expenditures. Even though the revenue sources of the City are somewhat diverse, our industrial partners remain the base of our income. Industries are influenced by the world's economy, causing the City's management to daily chart out spending while at all times maintaining the fiscal integrity of the City.

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.

City of Berea, Kentucky
Statement of Net Position
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,966,295	\$ 1,841,536	\$ 4,807,831
Investments - certificates of deposit	9,928,553	7,093,446	17,021,999
Receivables, net	1,758,283	2,904,315	4,662,598
Other receivables	-	388,613	388,613
Interest receivable	5,652	3,275	8,927
Other assets	3,683	-	3,683
Total current assets	14,662,466	12,231,185	26,893,651
Noncurrent assets			
Restricted cash and cash equivalents	-	2,492,669	2,492,669
Inventory	-	727,375	727,375
Capital assets			
Construction in progress	624,827	2,297,423	2,922,250
Land and easements	5,278,048	264,242	5,542,290
Land improvements, net	901,883	62,342	964,225
Buildings and improvements, net	13,728,548	1,730,109	15,458,657
Depreciable infrastructure, net	11,467,177	-	11,467,177
Plant and sewer system, net	-	12,171,241	12,171,241
Plant and electric system, net	-	9,253,012	9,253,012
Plant and water system, net	-	13,175,777	13,175,777
Vehicles and equipment	3,733,507	1,302,420	5,035,927
Software, net	127,792	-	127,792
Total noncurrent assets	35,861,782	43,476,610	79,338,392
Total Assets	50,524,248	55,707,795	106,232,043
Deferred Outflows of Resources			
Deferred outflows - pension and OPEB	4,888,635	1,690,079	6,578,714
Defeasance on refunding	-	581,379	581,379
Total assets and deferred outflows of resources	\$ 55,412,883	\$ 57,979,253	\$ 113,392,136
Liabilities			
Current liabilities			
Accounts payable	\$ 263,691	\$ 2,007,827	\$ 2,271,518
Accrued payroll	420,028	91,488	511,516
Accrued taxes and other liabilities	2,879	174,088	176,967
Accrued interest payable	72,746	4,469	77,215
Unearned revenue	97,796	3,000	100,796
Customer deposits	-	704,918	704,918
Compensated absences	6,695	571	7,266
Current portion of long-term obligations	76,780	1,727,936	1,804,716
Total current liabilities	940,615	4,714,297	5,654,912
Noncurrent liabilities			
Compensated absences	897,147	221,560	1,118,707
Noncurrent portion of long-term obligations	11,394,530	12,800,177	24,194,707
Net pension liability	10,444,165	3,753,794	14,197,959
Net OPEB liability	3,601,574	1,274,772	4,876,346
Total noncurrent liabilities	26,337,416	18,050,303	44,387,719
Total liabilities	27,278,031	22,764,600	50,042,631
Deferred Inflows of Resources			
Deferred inflows - pension and OPEB	1,155,557	409,009	1,564,566
Net Position			
Net invested in capital assets	24,390,472	25,728,453	50,118,925
Restricted for			
Debt service	-	779,774	779,774
Depreciation	-	1,712,895	1,712,895
Other purposes	578,939	-	578,939
Unrestricted	2,009,884	6,584,522	8,594,406
Total net position	26,979,295	34,805,644	61,784,939
Total liabilities, deferred inflows of resources and net position	\$ 55,412,883	\$ 57,979,253	\$ 113,392,136

City of Berea, Kentucky
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Program Revenues				Net Revenue (Expense)		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General government	\$ 2,292,539	\$ -	\$ -	\$ -	\$ (2,292,539)	\$ -	\$ (2,292,539)
Public works	2,718,945	-	279,159	642,401	(1,797,385)	-	(1,797,385)
Public safety - fire	2,511,088	-	161,175	684,114	(1,665,799)	-	(1,665,799)
Public safety - police	2,851,966	44,004	253,562	-	(2,554,400)	-	(2,554,400)
Codes enforcement	565,225	6,915	-	-	(558,310)	-	(558,310)
GIS/Surveying	198,132	-	-	-	(198,132)	-	(198,132)
Business development	169,430	-	-	-	(169,430)	-	(169,430)
Tourism	1,354,663	181,792	15,822	-	(1,157,049)	-	(1,157,049)
Information technology	201,858	-	-	-	(201,858)	-	(201,858)
State contracts	77,463	-	77,463	-	-	-	-
Interest on long-term debt	187,427	-	-	-	(187,427)	-	(187,427)
Parks and recreation	997,769	115,994	-	-	(881,775)	-	(881,775)
Total governmental activities	14,126,505	348,705	787,181	1,326,515	(11,664,104)	-	(11,664,104)
Business-Type Activities							
Berea municipal utilities	17,803,780	18,986,594	-	433,404	-	1,616,218	1,616,218
Total Business-Type Activities	17,803,780	18,986,594	-	433,404	-	1,616,218	1,616,218
Total	\$ 31,930,285	\$ 19,335,299	\$ 787,181	\$ 1,759,919	(11,664,104)	1,616,218	(10,047,886)
General revenues							
Taxes:							
Property taxes, levied for general purposes					880,791	-	880,791
Transient room tax					194,293	-	194,293
Restaurant tax					1,113,797	-	1,113,797
Licenses fees:							
Franchise					1,167,969	-	1,167,969
Payroll					6,694,351	-	6,694,351
Insurance premiums					1,056,742	-	1,056,742
Occupational					961,520	-	961,520
ABC					30,956	-	30,956
Permits:							
Building					73,283	-	73,283
Electric					35,731	-	35,731
Other					1,525	-	1,525
Investment income					59,640	48,528	108,168
Miscellaneous					251,157	-	251,157
Total general revenues					12,521,755	48,528	12,570,283
Gain/(loss) on disposal of capital assets					(258,925)	50,000	(208,925)
Change in net position					598,726	1,714,746	2,313,472
Net position, July 1, 2017, as originally reported					28,992,690	34,015,456	63,008,146
Prior period adjustment (see Note 16)					(2,612,121)	(924,558)	(3,536,679)
Net position, July 1, 2017, as restated					26,380,569	33,090,898	59,471,467
Net Position, June 30, 2018					\$ 26,979,295	\$ 34,805,644	\$ 61,784,939

City of Berea, Kentucky
Balance Sheet - Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Tourism Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,710,721	\$ 473,747	\$ 781,827	\$ 2,966,295
Investments	8,945,332	878,219	105,002	9,928,553
Receivables, net	1,496,400	235,866	26,017	1,758,283
Interest receivable	5,120	471	61	5,652
Other assets	-	-	3,683	3,683
Due from other funds	-	81	-	81
	<u>-</u>	<u>81</u>	<u>-</u>	<u>81</u>
Total assets	<u>\$ 12,157,573</u>	<u>\$ 1,588,384</u>	<u>\$ 916,590</u>	<u>\$ 14,662,547</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 195,873	\$ 67,104	\$ 714	\$ 263,691
Accrued payroll and related liabilities	405,346	14,682	-	420,028
Accrued taxes and other liabilities	915	1,964	-	2,879
Compensated absences	6,695	-	-	6,695
Unearned revenue	-	80,596	17,200	97,796
Due to other funds	81	-	-	81
Total liabilities	<u>608,910</u>	<u>164,346</u>	<u>17,914</u>	<u>791,170</u>
Fund Balances				
Nonspendable	-	-	-	-
Restricted	-	-	578,939	578,939
Committed	6,049,793	-	-	6,049,793
Assigned	4,100,170	1,424,038	319,737	5,843,945
Unassigned	1,398,700	-	-	1,398,700
Total fund balance	<u>11,548,663</u>	<u>1,424,038</u>	<u>898,676</u>	<u>13,871,377</u>
Total Liabilities and Fund Balances	<u>\$ 12,157,573</u>	<u>\$ 1,588,384</u>	<u>\$ 916,590</u>	<u>\$ 14,662,547</u>

City of Berea, Kentucky
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2018

Fund balances- total governmental funds \$ 13,871,377

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated depreciation of \$14,636,683 35,861,782

Interest accrued on general long term debt is not a current expenditure and is not reported in the funds (72,746)

Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Deferred outflows related to pension and OPEB	4,888,635	
Deferred inflows related to pension and OPEB	(1,155,557)	3,733,078

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Long term obligations	(11,471,310)	
Compensated absences	(897,147)	
Net pension liability - CERS	(10,444,165)	
Net OPEB liability - CERS	(3,601,574)	(26,414,196)

Net Position of governmental activities \$ 26,979,295

City of Berea, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Tourism Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 880,791	\$ 1,308,090	\$ -	\$ 2,188,881
Licenses and permits	10,022,079	-	-	10,022,079
Intergovernmental revenue	1,119,833	15,822	390,037	1,525,692
Charges for services	166,913	116,254	65,538	348,705
Fines and forfeits	40,461	3,862	-	44,323
Other revenues	198,821	50,681	16,970	266,472
Total revenue	<u>12,428,898</u>	<u>1,494,709</u>	<u>472,545</u>	<u>14,396,152</u>
Expenditures				
General administration	1,811,836	-	11,067	1,822,903
Public works	1,719,071	-	153,317	1,872,388
Public safety-fire	1,814,062	-	-	1,814,062
Public safety-police	2,599,873	-	14,258	2,614,131
Parks and recreation	709,258	-	-	709,258
Tourism	-	1,152,525	38,873	1,191,398
Codes enforcement	431,999	-	-	431,999
GIS/Surveying	141,179	-	-	141,179
Business development	138,335	-	-	138,335
Information technology	195,282	-	-	195,282
State contracts	-	-	77,463	77,463
Debt service	9,922,636	104,611	-	10,027,247
Capital outlay	6,780,353	48,073	269,423	7,097,849
Total expenditures	<u>26,263,884</u>	<u>1,305,209</u>	<u>564,401</u>	<u>28,133,494</u>
Excess of revenues over (under) expenditures	(13,834,986)	189,500	(91,856)	(13,737,342)
Other financing sources (uses):				
Proceeds from sale of assets	39,008	-	-	39,008
Financing proceeds	15,598,582	-	-	15,598,582
Transfers (to) from other funds	50,000	(50,000)	-	-
Total other financing uses	<u>15,687,590</u>	<u>(50,000)</u>	<u>-</u>	<u>15,637,590</u>
Net change in fund balance	1,852,604	139,500	(91,856)	1,900,248
Fund balances July 1, 2017	<u>9,696,059</u>	<u>1,284,538</u>	<u>990,532</u>	<u>11,971,129</u>
Fund balances June 30, 2018	<u>\$ 11,548,663</u>	<u>1,424,038</u>	<u>\$ 898,676</u>	<u>\$ 13,871,377</u>

City of Berea, Kentucky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 1,900,248

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset expenditures capitalized	6,593,679	
Capital asset contributed	588,004	
Loss on disposal of assets	(258,925)	
Proceeds from disposal of assets	(39,008)	
Depreciation expense	<u>(1,411,794)</u>	5,471,956

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Debt service expenditures	9,914,595	
Financing proceeds	(15,598,582)	
Amortization on deferred bond discount	(2,731)	
Changes in interest on long term debt	<u>(72,045)</u>	(5,758,763)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount related to the net pension liability.

Change in long term compensated absences	(126,220)	
Change in long term retainage payable	504,172	
Change in net OPEB liability	(120,859)	
Change in Net pension liability	<u>(1,271,808)</u>	<u>(1,014,715)</u>

Change in Net Position of Governmental Activities \$ 598,726

City of Berea, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2018

Assets

Current assets	
Cash and cash equivalents	\$ 1,841,536
Investments - certificates of deposit	7,093,446
Receivables, net	2,904,315
Grant receivables	372,636
Other receivables	15,977
Interest receivable	<u>3,275</u>
Total Current Assets	<u>12,231,185</u>

Noncurrent assets

Restricted cash and cash equivalents	2,492,669
Inventory	727,375
Capital assets	
Construction in progress	2,297,423
Land and easements	264,242
Land improvements	84,201
Buildings and improvements	2,629,106
Plant and electric equipment	14,899,293
Plant and water equipment	18,566,630
Plant and sewer equipment	30,646,181
Vehicles and equipment	2,976,286
Less accumulated depreciation	<u>(32,106,796)</u>

Total Noncurrent Assets 43,476,610

Total assets 55,707,795

Deferred Outflows of Resources

Deferred outflows - pension and OPEB	1,690,079
Defeasance on refunding	<u>581,379</u>

Total assets and deferred outflows of resources \$ 57,979,253

Liabilities

Current liabilities	
Accounts payable	\$ 2,007,827
Accrued payroll and related liabilities	91,488
Accrued taxes and other liabilities	174,088
Accrued interest payable	4,469
Customer deposits	704,918
Deferred revenue	3,000
Compensated absences - current	571
Bonds, notes, and loans payable	<u>1,727,936</u>

Total current liabilities 4,714,297

Noncurrent liabilities

Compensated absences	221,560
Bonds, notes, and loans payable	12,800,177
Net OPEB liability	1,274,772
Net pension liability	<u>3,753,794</u>

Total Long-term Debt 18,050,303

Total liabilities 22,764,600

Deferred Inflows of Resources

Deferred inflows - pension and OPEB	<u>409,009</u>
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Net Position

Net invested in capital assets	25,728,453
Restricted for debt service	779,774
Restricted for depreciation reserve	1,712,895
Unrestricted	<u>6,584,522</u>

Total Net Position 34,805,644

Total liabilities, deferred inflows of resources and net position \$ 57,979,253

City of Berea, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

Operating Revenues	
Electric service	\$ 12,441,975
Water service	3,275,042
Sewer service	2,864,621
Other revenues	<u>404,956</u>
Total Operating Revenues	<u>18,986,594</u>
Operating expenses	
Administration	1,528,196
Electric	10,939,926
Water	1,241,803
Sewer	1,381,538
Depreciation	<u>2,326,178</u>
Total operating expenses	<u>17,417,641</u>
Operating income	<u>1,568,953</u>
Nonoperating Revenues (Expenses)	
Interest and investment revenue	48,528
Interest expense	(320,355)
Amortization	(65,784)
Gain on disposal of capital assets	<u>50,000</u>
Total Nonoperating Revenues (Expenses)	<u>(287,611)</u>
Income before capital contributions and transfers	1,281,342
Capital contributions	
Electric, water and sewer connection fees	61,050
Grant revenues	<u>372,354</u>
Change in Net Position	1,714,746
Net Position - July 1, 2017 as originally reported	<u>34,015,456</u>
Prior Period Adjustment (see Note 16)	<u>(924,558)</u>
Net Position - July 1, 2017, restated	<u>33,090,898</u>
Net Position, June 30, 2018	<u><u>\$ 34,805,644</u></u>

City of Berea, Kentucky
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2018

Cash flows from operating activities	
Receipts from customers	\$ 18,217,752
Payments to suppliers	(12,118,128)
Payments to employee services and benefits	(2,380,438)
	<hr/>
Net cash provided by operating activities	3,719,186
	<hr/>
Cash flows from capital and related financing activities	
Capital contributions	433,404
Principal paid on capital debt	(1,660,696)
Purchases of capital assets and construction in progress	(1,521,752)
Proceeds from sale of capital assets	50,000
Interest paid on capital debt	(319,942)
	<hr/>
Net cash used by capital and related financing activities	(3,018,986)
	<hr/>
Cash flows from investing activities	
Investment activity, net	(45,940)
Interest and dividends	48,531
	<hr/>
Net cash provided by investing activities	2,591
	<hr/>
Net increase in cash and cash equivalents	702,791
Balances-beginning of the year	3,631,414
	<hr/>
Balances-end of the year	\$ 4,334,205
	<hr/>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,568,953
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,326,178
Net pension and OPEB liability	533,189
Change in assets and liabilities:	
Receivables, net	(778,325)
Inventory	(6,501)
Due to/from other funds	-
Accounts payable	44,692
Accrued vacation, sick and holiday	(10,556)
Accrued payroll and related taxes	13,647
Accrued taxes	18,426
Unearned revenue	3,000
Customer deposits	6,483
Net cash provided by operating activities	<hr/> \$ 3,719,186
Supplemental disclosures of cash flow information:	
Noncash capital and related financing activities:	
Amortization expense	<hr/> \$ 65,784
Cash Reconciliation:	
Cash and cash equivalents	\$ 1,841,536
Restricted cash	2,492,669
	<hr/>
Cash and cash equivalents - end of year	\$ 4,334,205
	<hr/>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 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.

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 based on the City's ability to significantly influence operation, select the governing body, and participate in fiscal management and the scope of public service. The Berea Tourism Commission and the Berea Industrial Authority are included in the financial statements because of these criteria.

The Berea Tourism Commission was created by Ordinance No. 7.82, which was adopted April 6, 1982. The Commission is composed of seven members appointed by the Mayor pursuant to KRS 91A.360. The Commission submits an annual request for operating funds to the Berea City Council and an annual report of the operation of the Commission during the preceding year. Effective July 1, 1997, the City is providing accounting services for the Commission. In accordance with KRS 91A.060 the Commission is audited annually. The audit is performed in conjunction with the City's annual audit.

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 Mayor appoints the other five members for four-year terms. The City Council approves the Authority's annual operating budget in conjunction with the City's annual budget authorization.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include a statement of net position 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 financials statements report detailed information about the City. The accounts of the City are organized based on funds each of which is considered 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, fund balance or net position, revenues and expenditures or expenses.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements

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 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.

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

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

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

Police Restricted Fund - A special revenue fund 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.

Berea Craft Festival - A special revenue fund used to account for the activities of the annual Berea Craft Festival.

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

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 - Summary of significant accounting policies (continued)

Proprietary Funds

Enterprise funds are established to account for the acquisition, operations and maintenance of the City's facilities and services which are entirely or predominantly self-supported by user charges or where the City has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounts are maintained on the accrual basis of accounting. The City'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.

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

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

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 - Summary of significant accounting policies (continued)

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.

Cash and Investments

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

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

Investments of the City consist of certificates of deposits and are reported at cost. These funds are invested for periods that comply with cash flow requirements of bond ordinances and general government services.

Accounts Receivable and Revenues

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

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

Capital Assets

Depreciation of capital assets is provided over the estimated useful lives of the respective assets using the straight-line basis. The estimated useful lives are as follows:

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

Capital assets acquired are recorded at cost or estimated cost. Contributed assets are recorded at fair value at the date of donation.

Internal Balances

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

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 - Summary of significant accounting policies (continued)

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to carry over 40 or 72 hours from one calendar year to the next (depending on class of employee). 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.

Estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometime report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applied to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for its pension plan and OPEB plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applied to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred inflows of resources for its pension plan and OPEB plan.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 - Summary of significant accounting policies (continued)

Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2017.

Fund Balances

Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned — all other spendable amounts.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 - Summary of significant accounting policies (continued)

As of June 30, 2018, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:	\$ -	\$ -	\$ -	\$ -
Law Enforcement	-	-	122,713	122,713
Road surface repairs	-	-	456,226	456,226
Committed:				
Capital additions	499,793	-	-	499,793
Capital projects reserve	2,850,000	-	-	2,850,000
Fund balance reserve	2,700,000	-	-	2,700,000
Assigned:				
Capital additions	1,964,814	-	-	1,964,814
Debt service	260,000	184,000	-	444,000
Other purposes	1,875,356	1,240,038	319,737	3,435,131
Unassigned	1,398,700	-	-	1,398,700
Total fund balances	<u>\$ 11,548,663</u>	<u>\$ 1,424,038</u>	<u>\$ 898,676</u>	<u>\$ 13,871,377</u>

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

Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 15, 2018, 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, 2018, have not been evaluated by the City.

Other Accounting Policies

Inventory is recorded at average cost.

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

Unearned revenues represent revenues received but unearned.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 2 - Cash and investments

Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The bank balance of the City's deposits totaled \$24,077,126. At June 30, 2018, federal depository insurance covered \$750,000 of the City's deposits. The remainder is covered by \$23,327,126 of collateral pledged in the City's name by the custodial banks.

Concentration of Credit Risk

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

The City's investments at June 30, 2018, consist entirely of certificates of deposit with maturities of one year or less.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 3 - Receivables

Receivables at year end of the City's major individual funds and non-major funds taken together, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Tourism Fund	Nonmajor Funds	Governmental Funds Total
Governmental Funds:				
Taxes	\$ 69,051	\$ 235,866	\$ -	\$ 304,917
Licenses, permits, billings	1,391,946	-	-	1,391,946
Charges for service	6,086	-	-	6,086
Intergovernmental	73,712	-	26,017	99,729
Other	5,605	-	-	5,605
Gross receivables	1,546,400	235,866	26,017	1,808,283
Less: allowance for uncollectible	(50,000)	-	-	(50,000)
Net receivables	<u>\$ 1,496,400</u>	<u>\$ 235,866</u>	<u>\$ 26,017</u>	<u>\$ 1,758,283</u>
Business-type Activities	Total			
Customer	\$ 2,979,315			
Less: allowance for uncollectible	(75,000)			
Net receivables	<u>\$ 2,904,315</u>			

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 4 - Capital assets

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

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 5,279,000	\$ 16,988	\$ (17,940)	\$ 5,278,048
Construction in progress	8,015,368	4,598,019	(11,988,560)	624,827
Totals	<u>13,294,368</u>	<u>4,615,007</u>	<u>(12,006,500)</u>	<u>5,902,875</u>
Capital assets being depreciated:				
Buildings and improvements	7,492,294	11,641,911	(620,185)	18,514,020
Land improvements	1,167,052	58,898	-	1,225,950
Software	282,496	34,900	-	317,396
Vehicles and equipment	7,549,856	1,916,626	(29,470)	9,437,012
Totals	<u>16,491,698</u>	<u>13,652,335</u>	<u>(649,655)</u>	<u>29,494,378</u>
Infrastructure assets	14,198,313	902,899	-	15,101,212
Total depreciable assets	<u>30,690,011</u>	<u>14,555,234</u>	<u>(649,655)</u>	<u>44,595,590</u>
Less accumulated depreciation:				
Buildings and improvements	4,787,733	337,931	(340,192)	4,785,472
Land improvements	277,833	46,234	-	324,067
Software	146,764	42,840	-	189,604
Vehicles and equipment	5,169,913	563,062	(29,470)	5,703,505
Infrastructure assets	3,212,308	421,727	-	3,634,035
Totals	<u>13,594,551</u>	<u>1,411,794</u>	<u>(369,662)</u>	<u>14,636,683</u>
Depreciable capital assets, net	<u>17,095,460</u>	<u>13,143,440</u>	<u>(279,993)</u>	<u>29,958,907</u>
Total capital assets, net	<u>\$30,389,828</u>	<u>\$17,758,447</u>	<u>\$(12,286,493)</u>	<u>\$ 35,861,782</u>
Business-type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	1,738,749	756,391	(197,717)	2,297,423
Totals	<u>2,002,991</u>	<u>756,391</u>	<u>(197,717)</u>	<u>2,561,665</u>
Capital assets being depreciated:				
Land improvements	84,201	-	-	84,201
Buildings and improvements	2,620,574	8,532	-	2,629,106
Electric system	14,784,759	114,534	-	14,899,293
Water system	18,540,242	26,388	-	18,566,630
Plant and sewer system	30,382,145	264,036	-	30,646,181
Vehicle and equipment	2,556,042	548,752	(128,508)	2,976,286
Totals	<u>68,967,963</u>	<u>962,242</u>	<u>(128,508)</u>	<u>69,801,697</u>
Less accumulated depreciation	<u>(29,909,126)</u>	<u>(2,326,178)</u>	<u>128,508</u>	<u>(32,106,796)</u>
Depreciable capital assets, net	<u>39,058,837</u>	<u>(1,363,936)</u>	<u>-</u>	<u>37,694,901</u>
Total capital assets, net	<u>\$41,061,828</u>	<u>\$ (607,545)</u>	<u>\$ (197,717)</u>	<u>\$ 40,256,566</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 4 Capital assets (continued)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 250,384
Police	169,414
Fire	173,672
Public works	179,975
Parks and recreation	234,962
Codes enforcement	11,206
GIS/Surveying	10,824
Infrastructure	306,844
Tourism	74,513
Total depreciation expense	\$1,411,794

Note 5 - Construction in progress

The City is in progress on the following projects:

	June 30, 2018
Business-type Activities	
Central Park North	\$ 168,458
Walnut Meadow Pump Station	616,234
Reservoir - Raw water source study	1,501,300
Exatrer Outage Avoidance System	5,375
Water Main Upgrade	6,056
Total construction in progress	\$ 2,297,423
 Governmental Activities	
Indian Fort Trail - Phase II	\$ 185,397
Ellipse St Shared use path	42,114
Scaffold Cane bike trail	3,843
Municipal Center - Gazebo	6,270
Rash road drainage	13,730
Stadium bleachers	159,563
Cherry road drainage	27,578
Blythe court drainage	16,578
Tolle building renovation	25,860
Splash Pad	143,894
Total construction in progress	\$ 624,827

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 6 - Business-Type Activities - Long-Term Debt

Bonds and Notes Payable

On January 1, 2005, the City of Berea issued \$16,445,000 of Series 2005-A Combined Utilities Revenue Bonds and \$3,740,000 of Series 2005-B Combined Utilities Revenue Bonds to fund the purchase of the Berea College water and electric utilities. The Series 2005-A Bonds bear interest of 3-4.375%. The Series 2005-A bonds mature on January 1, 2025 and the series 2005-B Bonds matured in 2010. Interest on the Series 2005-A Bonds is paid semiannually, with principal due on January 1 of each year. A portion of the 2005-A Bonds were advance refunded on April 11, 2013. The 2005-A bonds had a balance of \$5,000 at June 30, 2018.

On July 1, 2004, the City of Berea entered into a loan assistance agreement, not to exceed \$5,000,000, with the Kentucky Infrastructure Authority (KIA) for a federally assisted Wastewater Revolving Loan Fund Program Fund A loan for the improvement of the wastewater system. As of June 30, 2018, the City had a balance of \$2,121,384 on the loan. Interest payments began within six months from the first draw of funds at a rate of 1%, and full principal and interest payments commenced within one year of initiation of operation. The loan calls for a \$250,000 repairs and maintenance reserve.

On January 1, 2009, the City of Berea entered into a loan assistance agreement, not to exceed \$5,000,000, with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. As of June 30, 2018, the City had a balance of \$3,240,834 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The loan calls for a \$100,000 repairs and maintenance reserve.

On April 11, 2013, the City issued \$9,520,000 of Utility System Refunding Revenue Bonds, Series 2013. The proceeds were used to partially advance refund previously issued Utility System Revenue Bonds, Series 2005-A. The net proceeds of \$9,575,192 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the 2005-A Series bonds. As a result, a portion of the 2005-A Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$675,126 and has a net economic gain of \$600,693. The defeased bonds outstanding at June 30, 2018, were \$8,865,000. As of June 30, 2018, the City had a balance of \$9,040,000 on the Series 2013 Bonds. The Series 2013 Bonds bear interest of 2-3%. The bonds mature on January 1, 2025.

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

	June 30, 2017	Additions	Deductions	June 30, 2018
Revenue bonds payable	\$ 10,210,000	\$ -	\$ (1,165,000)	\$ 9,045,000
Notes payable	5,857,915	-	(495,696)	5,362,219
Net OPEB liability	-	1,274,772	-	1,274,772
Net pension liability	3,005,309	748,485	-	3,753,794
Compensated absences	232,687	-	(11,127)	221,560
Total debt outstanding	<u>\$ 19,305,911</u>	<u>\$ 2,023,257</u>	<u>\$ (1,671,823)</u>	<u>\$ 19,657,345</u>
Less current portion of:				
Revenue bonds				1,210,000
Notes payable				500,665
Unamortized premium				17,271
Current portion				<u>1,727,936</u>
Add unamortized premium				120,894
Total long term obligation				<u>\$ 18,050,303</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 6 - Business-Type Activities - Long-Term Debt (continued)

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2019	\$ 1,710,665	\$ 280,217	\$ 12,065	\$ 2,002,947
2020	1,740,085	250,998	10,938	2,002,021
2021	1,765,754	221,229	9,800	1,996,783
2022	1,800,893	187,871	8,678	1,997,442
2023	1,836,046	150,356	7,491	1,993,893
2024-28	4,872,884	208,602	20,365	5,101,851
2029-32	680,892	10,247	1,947	693,086
Total	<u>\$14,407,219</u>	<u>\$ 1,309,520</u>	<u>\$ 71,284</u>	<u>\$ 15,788,023</u>

Compliance with Reserve Requirements

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

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. There are no required monthly deposits or balance to maintain in the depreciation fund account. The KIA loans call for the creation of a repairs and maintenance reserve of \$350,000. At June 30, 2018, the depreciation fund had a balance of \$1,712,895.

Debt Service Fund – The debt service fund is maintained for the payment of principal and interest on bonds. The City is required to make a monthly transfer to the reserve of 1/6 of the next interest due and 1/12 of the next principal. These monthly transfers are to be made until the balance reaches the lesser of 1) the maximum debt service requirement in any fiscal year, 2) 10% of the proceeds of any series bonds or 3) 125% of the average annual debt service requirement. As of June 30, 2018, the debt service fund had a balance of \$779,774.

Note 7 – Governmental activities – Long-Term Debt

Leases Payable

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

Lease Agreement – Tolle Building – The City entered into a lease agreement with a local bank on June 29, 2015, to finance the acquisition of 633 Chestnut Street (known as the Tolle Building and 137/139 North Broadway). The lease bears interest at a rate of 2.65% and is due in semi-annual payments payable on December 1 and June 1 of each fiscal year. The lease is scheduled to be paid out on June 1, 2025, through a balloon payment. The balance of the lease at June 30, 2018 was \$1,069,310.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 7 – Governmental activities – Long-Term Debt (continued)

Bonds and Notes Payable

Expansion Bond Payable

On April 8, 2008, the City issued \$3,375,000 in General Obligation Public Project Bonds, Series 2008. The proceeds funded the park expansion project. The bonds bear interest at rates ranging from 2.25% - 3.3%. The final payment for this bond was paid in fiscal year 2018.

General Obligation Public Project Bond Anticipation Note, Series 2016

On September 1, 2016 the City opened a bond anticipation note with a bank to borrow up to \$9,900,000 at an interest rate of 1% for the construction of the Berea Municipal Police, Fire and Safety Building. During fiscal 2018, the City borrowed \$5,196,582 on the note for construction. The project was completed in March 2018 and the note was paid in full with proceeds from the Bond Series 2018.

General Obligation Public Project Bond, Series 2018

On March 19, 2018, the City of Berea issued \$10,402,000 of Series 2018 General Obligation Bonds to fund the construction of City Hall. The Series 2018 Kentucky General Obligation Public Project Bonds bear interest at 3.125%. The Series 2018 bond matures on January 1, 2058. Interest on the Series 2018 bond is paid semi-annually, with principal due on January 1 each year.

The schedule below shows the City's total general bond and lease debt service:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 76,780	\$ 284,119	\$ 360,899
2020	78,828	350,845	429,673
2021	227,431	348,742	576,173
2022	234,089	342,006	576,095
2023	241,106	335,070	576,176
Thereafter	10,613,076	6,517,573	17,130,649
Total	<u>\$ 11,471,310</u>	<u>\$ 8,178,355</u>	<u>\$ 19,649,665</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 7 – Governmental activities – Long-Term Debt (continued)

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

	June 30, 2017	Additions	Deductions	June 30, 2018
General Obligation bond payable	\$ -	\$ 10,402,000	\$ -	\$ 10,402,000
Leases payable - building	1,144,095	-	(74,785)	1,069,310
Park bonds payable	255,000		(255,000)	-
Bond anticipation note	4,388,228	5,196,582	(9,584,810)	-
Net Pension liability	8,296,089	2,148,076	-	10,444,165
Net OPEB liability	-	3,601,574	-	3,601,574
Compensated absences	770,927	126,220		897,147
Total debt outstanding	<u>\$ 14,854,339</u>	<u>\$ 21,474,452</u>	<u>\$ (9,914,595)</u>	<u>\$ 26,414,196</u>
Less current portion of:				
Leases payable				<u>\$ 76,780</u>
Current portion				<u>76,780</u>
Total long - term obligation				<u>\$ 26,337,416</u>

Note 8 – Conduit Debt

In December 2010, the City Council authorized issuance of Industrial Building Revenue Bonds totaling \$7,500,000 for the purpose of assisting Berea College in the refinancing of certain outstanding industrial building and educational building revenue bonds that were issued for the acquisition, construction, renovation and equipping of an educational building within the City. The bonds are secured by various assets of the borrower. The amount of bonds outstanding at June 30, 2018 is not readily available.

In May 2015, the City Council authorized issuance of Educational Facilities Revenue Refunding Bonds of approximately \$6,435,000 for assisting Berea College in refunding certain outstanding educational facilities revenue bonds. The amount of bonds outstanding at June 30, 2018 is not readily available.

The City has no liability for any of the conduit debt in the event of default by the borrowers. Accordingly, the bonds are not reported as liabilities in the City's financial statements.

Note 9 – Transfers

The following were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ 50,000	\$ -
Tourism Fund	-	50,000
Total	<u>\$ 50,000</u>	<u>\$ 50,000</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan

County Employees' Retirement System (CERS)

The City of Berea is a participating employer of the County Employees' Retirement System. Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements, which may be downloaded from the Kentucky Retirement Systems website.

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 adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2018, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 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 78.545(33), normal contribution and past service contribution rates shall be determined by the Board based on 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 based on 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, 2018, participating employers contributed 19.18% 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City contributed \$1,221,838 for the year ended June 30, 2018, or 100% of the required contribution. The contribution was allocated \$922,430 to the CERS pension fund and \$299,408 to the CERS insurance fund.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan (continued)

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years' service or 65 years old At least 5 years' service and 55 years old 25 years' service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+ At least 10 years' service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years' service and 65 years old or age 57+ with sum of service years plus age equal 87+ Not available

Cost of living adjustments are provided at the discretion of the General Assembly of the State of Kentucky. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability of \$14,197,959 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the City's proportion was .243 percent, which was an increase of .013 percent from its proportion at June 30, 2017 (.230 percent).

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan (continued)

For the year ended June 30, 2018, the City recognized pension expense of \$2,647,301. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 17,610	\$ 360,405
Changes of assumptions	2,619,908	-
Net difference between projected and actual earnings on Plan investments	1,124,461	948,849
Changes in proposition and differences between City contributions and proportionate share of contributions	474,238	-
City contributions subsequent to the measurement date	922,430	-
Total	\$ 5,158,647	\$ 1,309,254

The \$922,430 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2019	\$ 1,301,254
2020	1,251,460
2021	556,170
2022	(182,309)

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan (continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

Long Term Rate of Return: The long term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long term rate of return assumption including long term historical data, estimates inherent in current market data, and a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	<u>6.56%</u>	<u>100.00%</u>

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 10 - Retirement plan (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	<u>Discount Rate</u>		<u>City's proportionate share of net pension liability</u>
1% decrease	5.25%	\$	17,906,694
Current discount rate	6.25%	\$	14,197,959
1% increase	7.25%	\$	11,095,628

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$121,963 for the outstanding amount of contributions to the pension and OPEB plans required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

457(b) and 401(k)

In addition, the City of Berea offers a 457(b) and a 401(k) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 56 participants in the 457(b) plan and 11 participants in the 401(k) plan. Employees can contribute 100% of includable compensation up to \$18,000 and an additional \$6,000 if 50 or older for calendar year 2016. During the fiscal year employees contributed \$105,892 to the 457(b) plan and \$29,833 to the 401(k) plan

Note 11 – Post-Employment Benefits Other than Pensions (OPEB)

At June 30, 2018, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Outflows of Resources	<u>\$ 1,420,067</u>
Deferred Inflows of Resources	<u>\$ 255,312</u>
Net OPEB Liability:	<u>\$ 4,867,346</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2018 was 4.70% of covered payroll. Contributions to the Insurance Fund from the City were \$299,408 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rate	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Pre – 65	
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate Trend rate of 5.00% over a period of 2 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

Discount Rate

The projection of cash flows used to determine the discount rate of 5.84% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	<u>6.56%</u>	<u>100.00%</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.83%	\$ 6,204,880
Current discount rate	5.83%	\$ 4,876,346
1% increase	6.83%	\$ 3,770,797

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower(6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

	Healthcare Cost Trend Rate	City's proportionate share of net OPEB liability
1% decrease	6.5%	\$ 3,740,408
Current healthcare rate	7.5%	\$ 4,876,346
1% increase	8.5%	\$ 6,352,998

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$4,867,346 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.242563%

For the year ended June 30, 2018, the City recognized OPEB expense of \$555,678. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ -	\$ 11,314
Implicit subsidy	59,597	-
Differences between expected and actual results	-	13,544
Changes of assumptions	1,061,062	-
Net difference between projected and actual earnings on Plan investments	-	230,454
District contributions subsequent to the measurement date	299,408	-
Total	\$ 1,420,067	\$ 255,312

The \$299,408 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2019	\$138,637
2020	138,637
2021	138,637
2022	138,637
2023	196,251
Thereafter	\$54,950

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

Note 12 - Property tax rates and calendar

Property taxes for fiscal year 2018 were levied in November 2017 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 10.2 cents per one hundred dollars of assessed value. 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	
1. Due date for payment, 2% discount	November 30
2. Face value payment period	December 1 – December 31
3. Past due date, 10% penalty	January 1
4. Interest charge	12% per annum from Jan 1

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

Note 13 - Risk management

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

Note 14 - Related organization

Organizations for which a primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered related organizations. The Housing Authority of Berea is a related organization of the City. The City appoints a voting majority of the Housing Authority's board but has no further accountability. The Housing Authority was established to provide public housing for certain families within City limits. The Housing Authority does not meet the definition of a component unit but is considered a related party of the City.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 15 - Tax abatements

The City negotiates tax abatement agreements on an individual basis. The City has tax abatement agreements with two companies, Hitachi Automotive and Stemco LP, which were entered into via cooperation with the Kentucky Economic Development Finance Authority. The agreement with Hitachi Automotive is to offer incentives for the company to utilize the premises previously occupied by Panasonic Manufacturing Company on Mayde Road within City limits. The agreement with Stemco LP is to provide incentives for the company to renovate and expand an existing manufacturing facility located at 159 Glades Road within City limits. Both tax abatements call for the City to forego 1% of the occupational license fee imposed on certain employees of the companies. KRS 154.32-090 permits the City to forego 1% of any occupational license fee imposed via credits against the City's occupational license fee for employees of an eligible company as an additional incentive. Both agreements were in effect during fiscal year 2018, however no occupational license fees were foregone during fiscal year 2018.

Note 16 – Prior Period Adjustment

The GASB has issued Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The City has implemented this statement, to its financial statements for the year ending June 30, 2018, effective July 1, 2017

As a result of the implementation, the City restated beginning net position for governmental and business-type activities as noted below:

	Governmental Activities	Business Activities
Beginning of year, as previously reported		
Net Position	\$ 28,992,690	\$ 34,015,456
Net OPEB liability	(2,824,967)	(999,894)
Deferred outflows of resources	212,846	75,336
Beginning of year, as restated		
Net Position	\$ 26,380,569	\$ 33,090,898

Note 17 – Recently Issued Accounting Standards

GASB Statement No. 83—In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018–19 fiscal year. The City has not determined the effect of this pronouncement.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2018

Note 17 – Recently Issued Accounting Standards (continued)

GASB Statement No. 84—In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019–20 fiscal year. The City has not determined the effect of this pronouncement.

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or the 2020-21 fiscal year. The City has not determined the effect of this pronouncement.

Required Supplementary Information

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Municipal taxation				
General property taxes	\$ 645,000	\$ 683,000	\$ 706,262	\$ 23,262
State assessment property taxes	10,000	10,000	18,933	8,933
In lieu of property tax	22,000	22,000	19,300	(2,700)
Delinquent property taxes	10,000	10,000	10,342	342
Bank deposit taxes	60,214	63,344	63,344	-
Motor vehicle taxes	40,000	45,000	62,610	17,610
	<u>787,214</u>	<u>833,344</u>	<u>880,791</u>	<u>47,447</u>
Licenses, permits, billings				
Occupational license fees				
Insurance	700,000	700,000	1,056,742	356,742
Employee withholding	5,300,000	5,500,000	6,694,351	1,194,351
Net profits	650,000	650,000	900,843	250,843
Individual	30,000	30,000	47,722	17,722
Business	7,500	7,500	12,957	5,457
ABC	18,000	16,000	30,956	14,956
Utility franchise fees	1,045,000	1,055,000	1,167,969	112,969
Building permits	73,000	73,000	73,283	283
Electric permits	45,000	45,000	35,731	(9,269)
Street cut permits	200	200	1,525	1,325
	<u>7,868,700</u>	<u>8,076,700</u>	<u>10,022,079</u>	<u>1,945,379</u>
Charges for service				
Court costs & fees	12,000	12,000	17,544	5,544
Accident reports	2,000	2,000	4,245	2,245
Codes - plat review fee	2,600	4,300	6,915	2,615
Police special services	10,000	13,955	22,215	8,260
Demolition cleanup	100	100	-	(100)
Parks concessions	14,000	14,000	15,822	1,822
Pool concessions	22,000	22,000	26,130	4,130
Swimming pool fees	53,000	60,000	72,053	12,053
Softball fees	200	200	-	(200)
Miscellaneous	1,200	1,200	1,989	789
	<u>117,100</u>	<u>129,755</u>	<u>166,913</u>	<u>37,158</u>
Fines and forfeits				
Fingerprint charges	900	900	1,290	390
Court restitution	100	100	100	-
Codes violations	1,000	1,600	2,310	710
Penalties and interest	18,000	21,000	31,926	10,926
Parking fines	3,500	3,500	4,835	1,335
	<u>23,500</u>	<u>27,100</u>	<u>40,461</u>	<u>13,361</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Intergovernmental revenues				
County school-police contract	\$ 70,000	\$ 70,000	\$ 81,645	\$ 11,645
Madison county grants	53,000	38,000	38,000	-
Other grants	815,000	622,000	738,511	116,511
Volunteer fire state aid	8,250	11,000	11,000	-
Police incentive pay	132,000	132,000	138,502	6,502
Fire incentive pay	100,500	100,500	112,175	11,675
	<u>1,178,750</u>	<u>973,500</u>	<u>1,119,833</u>	<u>146,333</u>
Other revenue				
Rental income	79,175	79,675	85,175	5,500
Interest income	35,900	35,900	52,460	16,560
Insurance proceeds	-	35,000	40,555	5,555
Miscellaneous	5,000	7,100	20,631	13,531
	<u>120,075</u>	<u>157,675</u>	<u>198,821</u>	<u>41,146</u>
Total revenue	<u>10,095,339</u>	<u>10,198,074</u>	<u>12,428,898</u>	<u>2,230,824</u>
Expenses				
Administration				
General government				
Personnel	58,291	33,604	14,391	19,213
Utilities	61,800	61,800	62,989	(1,189)
Materials and supplies	12,500	12,500	13,498	(998)
Services and support	328,800	377,800	370,085	7,715
Other expenditures	9,000	9,000	277	8,723
Administration				-
Personnel	251,904	251,904	252,980	(1,076)
Materials and supplies	24,400	20,400	5,430	14,970
Services and support	142,400	138,780	180,195	(41,415)
Other expenditures	11,600	11,100	5,762	5,338
City council				-
Personnel	56,900	56,900	54,256	2,644
Services and support	80,600	80,600	77,593	3,007
Other expenditures	411,300	411,300	343,153	68,147
Finance office				-
Personnel	329,000	329,000	324,988	4,012
Materials and supplies	19,000	19,000	10,674	8,326
Services and support	104,500	104,500	91,405	13,095
Other expenditures	8,500	8,500	4,160	4,340
Total Administration	<u>1,910,495</u>	<u>1,926,688</u>	<u>1,811,836</u>	<u>114,852</u>
Police				
Personnel	2,553,000	2,543,000	2,331,042	211,958
Utilities	18,500	18,500	13,358	5,142
Materials and supplies	192,000	197,000	167,154	29,846
Services and support	72,500	72,500	48,602	23,898
Other expenditures	61,500	61,500	39,717	21,783
Total police department	<u>\$ 2,897,500</u>	<u>\$ 2,892,500</u>	<u>\$ 2,599,873</u>	<u>\$ 292,627</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Fire				
Personnel	\$ 1,711,000	\$ 1,731,000	\$ 1,652,383	\$ 78,617
Utilities	13,200	13,800	10,586	3,214
Materials and supplies	102,500	105,500	72,192	33,308
Services and support	84,700	86,200	68,734	17,466
Other expenditures	22,000	18,000	10,167	7,833
Total fire department	<u>1,933,400</u>	<u>1,954,500</u>	<u>1,814,062</u>	<u>140,438</u>
Public works				
Personnel	1,265,153	1,265,153	1,178,800	86,353
Utilities	130,750	130,750	119,121	11,629
Materials and supplies	309,200	309,200	171,559	137,641
Services and support	432,200	432,200	239,466	192,734
Other expenditures	25,750	25,750	10,125	15,625
Total public works	<u>2,163,053</u>	<u>2,163,053</u>	<u>1,719,071</u>	<u>443,982</u>
Codes enforcement				
Personnel	412,819	419,469	380,326	39,143
Materials and supplies	21,000	20,000	16,275	3,725
Services and support	24,300	42,300	28,470	13,830
Other expenditures	12,500	12,500	6,928	5,572
Total codes enforcement	<u>470,619</u>	<u>494,269</u>	<u>431,999</u>	<u>62,270</u>
Parks and recreation				
Parks and recreation				
Personnel	333,358	333,358	311,091	22,267
Utilities	93,390	93,390	94,381	(991)
Materials and supplies	61,200	61,200	40,720	20,480
Services and support	114,800	114,800	47,313	67,487
Other expenditures	32,200	32,200	27,138	5,062
Pool				
Personnel	82,891	82,891	72,302	10,589
Utilities	15,400	20,400	20,721	(321)
Materials and supplies	50,500	50,500	39,744	10,756
Services and support	34,000	34,000	31,415	2,585
Other expenditures	11,000	11,000	6,083	4,917
Intergenerational center				
Utilities	18,700	18,700	16,641	2,059
Services and support	10,000	37,850	1,709	36,141
Total parks and recreation	<u>\$ 857,439</u>	<u>\$ 890,289</u>	<u>\$ 709,258</u>	<u>\$ 181,031</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
GIS/Surveying				
Personnel	\$ 173,813	\$ 173,813	\$ 133,874	\$ 39,939
Materials and supplies	12,800	12,800	3,665	9,135
Services and support	11,650	11,650	3,269	8,381
Other expenditures	4,500	4,500	371	4,129
Total GIS/surveying	<u>202,763</u>	<u>202,763</u>	<u>141,179</u>	<u>61,584</u>
Business development				
Personnel	99,687	99,687	93,621	6,066
Materials and supplies	5,300	6,150	4,228	1,922
Services and support	30,080	30,080	14,947	15,133
Other expenditures	50,600	55,600	25,539	30,061
Total business development	<u>185,667</u>	<u>191,517</u>	<u>138,335</u>	<u>53,182</u>
Information technology				
Personnel	72,163	72,163	72,142	21
Materials and supplies	12,500	12,500	5,302	7,198
Services and support	113,550	113,550	112,838	712
Other expenditures	5,000	5,000	5,000	-
Total information technology	<u>203,213</u>	<u>203,213</u>	<u>195,282</u>	<u>7,931</u>
Capital outlay	<u>8,112,850</u>	<u>8,250,850</u>	<u>6,780,353</u>	<u>1,470,497</u>
Debt service	<u>404,172</u>	<u>9,767,055</u>	<u>9,922,636</u>	<u>(155,581)</u>
Total expenditures	<u>19,341,171</u>	<u>28,936,697</u>	<u>26,263,884</u>	<u>2,672,813</u>
Other financing sources (uses)				
Proceeds from sale of assets	-	-	39,008	39,008
Financing proceeds	5,400,000	15,598,582	15,598,582	-
Transfers in (out)	25,000	25,000	50,000	25,000
Total other financing sources (uses)	<u>5,425,000</u>	<u>15,623,582</u>	<u>15,687,590</u>	<u>64,008</u>
Net change in fund balance	<u>\$ (3,820,832)</u>	<u>\$ (3,115,041)</u>	<u>\$ 1,852,604</u>	<u>\$ (377,981)</u>

City of Berea, Kentucky
Tourism Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Municipal taxation				
Transient room tax	\$ 130,000	\$ 130,000	\$ 194,293	\$ 64,293
Restaurant tax	950,000	950,000	1,113,797	163,797
Intergovernmental				
Grant revenues	15,000	15,000	15,822	(822)
Charges for service				
Workshop fees	150,000	150,000	116,254	(33,746)
Other revenue				
Miscellaneous	50,700	50,700	54,543	3,843
Total revenue	<u>1,295,700</u>	<u>1,295,700</u>	<u>1,494,709</u>	<u>197,365</u>
Tourism				
Personnel	389,454	406,600	344,151	62,449
Utilities	64,000	64,000	39,015	24,985
Materials and supplies	49,200	49,200	20,638	28,562
Services and support	476,500	476,500	448,784	27,716
Other expenditures	423,000	423,000	299,937	123,063
Capital outlay	420,000	420,000	48,073	371,927
Debt service	108,000	108,000	104,611	3,389
Total expenditures	<u>1,930,154</u>	<u>1,947,300</u>	<u>1,305,209</u>	<u>642,091</u>
Other financing sources (uses)				
Financing proceeds	-	-	-	-
Transfers in (out)	50,000	50,000	50,000	-
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (684,454)</u>	<u>\$ (701,600)</u>	<u>\$ 139,500</u>	<u>\$ (444,726)</u>

City of Berea, Kentucky
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Five Fiscal Years

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
City's proportion of the net pension liability	0.223%	0.223%	0.226%	0.220%	0.243%
City's proportionate share of the net pension liability	\$ 8,187,448	\$ 7,241,715	\$ 9,697,588	\$ 11,301,398	\$ 14,197,959
City's covered-employee payroll	\$ 5,223,676	\$ 5,394,952	\$ 5,636,670	\$ 6,092,638	\$ 6,370,339
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	156.74%	134.23%	172.04%	185.49%	222.88%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.50%

City of Berea, Kentucky
Schedule of the City's Pension Contributions
County Employees' Retirement System
Last Five Fiscal Years

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>
Contractually required contribution	\$ 717,733	\$ 687,771	\$ 700,074	\$ 849,923	\$ 922,430
Contributions in relation to the contractually required contribution	<u>717,733</u>	<u>687,771</u>	<u>700,074</u>	<u>849,923</u>	<u>922,430</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,223,674	\$ 5,394,952	\$ 5,636,670	\$ 6,092,638	\$ 6,370,339
Contributions as a percentage of covered employee	13.74%	12.75%	12.42%	13.95%	14.48%

City of Berea, Kentucky
Schedule of the City's OPEB Contributions
County Employees' Retirement System
Fiscal Year 2018

Contractually required contribution	\$ 299,408
Contributions in relation to the contractually required contribution	<u>299,408</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
City's covered-employee payroll	\$ 6,370,339
Contributions as a percentage of covered-employee payroll	4.70%

City of Berea, Kentucky
Schedule of Changes in the City's OPEB Liability
County Employees' Retirement System
Fiscal Year 2018

Change in the Net OPEB Liability

Total OPEB liability

Service Cost	\$	207,314
Interest		584,223
Benefit Changes		-
Difference between actual and expected experience		(16,109)
Assumption Changes		1,262,021
Benefit Payments		(339,880)

Net Change on Total OPEB Liability 1,697,569

Total OPEB Liability - Beginning 8,545,570

Total OPEB Liability - Ending **\$ 10,243,139**

Plan Fiduciary Net Position

Contributions - Employer	\$	323,400
Contributions - Member		22,213
Benefit Payments		(339,880)
Net Investment Income		642,263
Administrative Expense		(1,913)
Other		-

Net Change in Plan Fiduciary Net Position 646,083

Plan Fiduciary Net Position - Beginning 4,720,710

Plan Fiduciary Net Position - Ending **\$ 5,366,793**

Net OPEB Liability - Ending **4,876,346**

Plan Fiduciary Net Position as a Percentage of
the Total OPEB Liability 52.4%

Covered Payroll \$ 6,370,339

Net OPEB Liability as a Percentage of
Covered Payroll 76.5%

SUPPLEMENTAL INFORMATION

**City of Berea, Kentucky
Proprietary Fund
Budget Information
For the Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Berea Municipal Utilities				
Administration				
Personnel	\$ 826,407	\$ 846,800	\$ 1,009,876	\$ (163,076)
Utilities	71,700	71,700	67,035	4,665
Materials and supplies	49,000	49,000	33,835	15,165
Services and support	404,000	404,000	393,437	10,563
Other expenses	34,000	34,000	24,013	9,987
	<u>1,385,107</u>	<u>1,405,500</u>	<u>1,528,196</u>	<u>(122,696)</u>
Electric				
Personnel	583,850	583,850	664,128	(80,278)
Utilities	3,150	3,150	1,725	1,425
Materials and supplies	55,000	55,000	37,915	17,085
Services and support	9,723,000	9,768,000	10,153,940	(385,940)
Other expenditures	632,500	232,500	82,218	150,282
	<u>10,997,500</u>	<u>10,642,500</u>	<u>10,939,926</u>	<u>(297,426)</u>
Water				
Personnel	498,000	498,000	532,011	(34,011)
Utilities	235,600	235,600	252,199	(16,599)
Materials and supplies	151,300	151,300	104,049	47,251
Services and support	374,500	374,500	337,136	37,364
Other expenditures	42,000	42,000	16,408	25,592
	<u>1,301,400</u>	<u>1,301,400</u>	<u>1,241,803</u>	<u>59,597</u>
Sewer				
Personnel	620,700	620,700	710,703	(90,003)
Utilities	205,800	205,800	209,187	(3,387)
Materials and supplies	79,300	79,300	68,482	10,818
Services and support	384,800	384,800	376,473	8,327
Other expenditures	36,200	36,200	16,693	19,507
	<u>1,326,800</u>	<u>1,326,800</u>	<u>1,381,538</u>	<u>(54,738)</u>
Total expenses	<u>\$ 15,010,807</u>	<u>\$ 14,676,200</u>	<u>\$ 15,091,463</u>	<u>\$ (415,263)</u>

**City of Berea, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	<u>Municipal Road Aid Fund</u>	<u>Industrial Development Fund</u>	<u>Berea Corridor Fund</u>	<u>Police Restricted Fund</u>	<u>Berea Craft Festival Fund</u>	<u>US 25 North Fund</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ 430,209	\$ 43,004	\$ -	\$ 122,713	\$ 65,525	\$ 120,376	\$ 781,827
Investments	-	105,002	-	-	-	-	105,002
Accounts receivable	26,017	-	-	-	-	-	26,017
Interest receivable	-	61	-	-	-	-	61
Other assets	-	-	-	-	3,683	-	3,683
Due from other fund	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 456,226</u>	<u>\$ 148,067</u>	<u>\$ -</u>	<u>\$ 122,713</u>	<u>\$ 69,208</u>	<u>\$ 120,376</u>	<u>\$ 916,590</u>
LIABILITIES AND FUND BALANCE							
Accounts payable	\$ -	\$ -	\$ -	\$ -	714	\$ -	\$ 714
Accrued payroll	-	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	17,200	-	17,200
Due to other fund	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	-	-	-	-	17,914	-	17,914
Fund Balance, restricted	456,226	-	-	122,713	-	-	578,939
Fund Balance, assigned	-	148,067	-	-	51,294	120,376	319,737
	<u>-</u>	<u>148,067</u>	<u>-</u>	<u>-</u>	<u>51,294</u>	<u>120,376</u>	<u>319,737</u>
Total Fund Balance	<u>456,226</u>	<u>148,067</u>	<u>-</u>	<u>122,713</u>	<u>51,294</u>	<u>120,376</u>	<u>898,676</u>
Total Liabilities and Fund Balance	<u>\$ 456,226</u>	<u>\$ 148,067</u>	<u>\$ -</u>	<u>\$ 122,713</u>	<u>\$ 69,208</u>	<u>\$ 120,376</u>	<u>\$ 916,590</u>

City of Berea, Kentucky
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds
June 30, 2018

	Municipal Road Aid Fund	Industrial Development Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	Total
Revenues							
Intergovernmental revenues	\$ 279,159	\$ -	\$ -	\$ 33,415	\$ -	\$ 77,463	\$ 390,037
Charges for services	-	-	-	-	65,538	-	65,538
Other revenues	284	16,505	-	99	65	17	16,970
Total Revenues	279,443	16,505	-	33,514	65,603	77,480	472,545
Expenditures							
General administrative	-	11,067	-	-	-	-	11,067
Police department	-	-	-	14,258	-	-	14,258
Street department	153,317	-	-	-	-	-	153,317
Tourism	-	-	-	-	38,873	-	38,873
State contracts	-	-	-	-	-	77,463	77,463
Capital outlay	239,011	-	-	30,412	-	-	269,423
Debt service	-	-	-	-	-	-	-
Total expenditures	392,328	11,067	-	44,670	38,873	77,463	564,401
Excess revenues over (under) expenditures before other sources (uses)	(112,885)	5,438	-	(11,156)	26,730	17	(91,856)
Other financing sources							
Proceeds from sale of assets	-	-	-	-	-	-	-
Transfers from (to) other funds	-	-	-	-	-	-	-
Excess revenues and other sources over (under) expenditures	(112,885)	5,438	-	(11,156)	26,730	17	(91,856)
Fund balances July 1, 2017	569,111	142,629	-	133,869	24,564	120,359	990,532
Fund balances June 30, 2018	\$ 456,226	\$ 148,067	\$ -	\$ 122,713	\$ 51,294	\$ 120,376	\$ 898,676

City of Berea, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Program Title	CFDA	Pass Through Contract Number	Federal Expenditures
Executive Office of the President			
High Intensity Drug Trafficking Areas Program	95.001	n/a	\$ 13,543
Department of Transportation			
Highway Planning and Construction (see note 4)	20.205	PO2-625-150002643	14,370
State and Community Highway Safety (see note 4)	20.600	PT-2018-HY-3 1800004490	1,056
National Recreational Trails Fund (see note 4)	20.219	RTP 519-15 1700000425	<u>57,749</u>
Total Department of Transportation			73,175
Department of Housing and Urban Development			
Community Development Black Grants (see note 5)	14.228	15-048	253,490
United States Department of Agriculture			
Community Facilities Loans and Grants	10.766	n/a	4,876,928
U.S. Department of Homeland Security			
Chemical Stockpile Emergency Preparedness Program	97.040	n/a	400,000
Total expenditures of federal awards			<u><u>\$ 5,617,136</u></u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Berea and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers. Retainage payable on the government-wide statements is excluded as an expenditure.

Note 2: Indirect Cost Rates

The City of Berea did not elect to use the 10 percent *de minimis* cost rate as allowed under the Uniform Guidance .

Note 3: The City did not pass through any funds to subrecipients.

Note 4: Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet

Note 5: Pass Through Grantor - Kentucky Department for Local Government

**INDEPENDENT AUDITOR'S 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**

To the Mayor and City Council
City of Berea, Kentucky

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Berea, Kentucky's basic financial statements and have issued our report thereon dated October 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Berea, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Berea, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Berea, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employee, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Berea, Kentucky's financial statements are free from 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*.

The purpose of this report is solely to describe the scope of our testing of internal control compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
Richmond, Kentucky
October 15, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council
City of Berea, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Berea, Kentucky's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Berea, Kentucky's major federal programs for the year ended June 30, 2018. The City of Berea, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Berea, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance, 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 Berea, Kentucky'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Berea, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Berea, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 City'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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
Richmond, Kentucky
October 15, 2018

City of Berea, Kentucky
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

A. Summary of Audit Results

Financial Statements:

1. The auditors' report expresses an unmodified opinion on the financial statements of the City of Berea, Kentucky.
2. No deficiencies in internal controls over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Berea, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Federal Awards:

4. No deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal awards programs for the City of Berea, Kentucky expresses an unmodified opinion on all major federal programs.
6. No audit findings were required to be reported in accordance with 2 CFR 2005.16(a).
7. The programs tested as major programs included:

CFDA #
Community Facilities Loans and Grants

 10.766
8. The threshold for distinguishing Types A and B Programs was \$750,000.
9. The City of Berea, Kentucky did not qualify to be a low risk auditee.

B. Financial Statement Findings

No matters were reported.

C. Major Federal Award Findings and Questioned Costs

No matters were reported.

D. Schedule of Prior Year Audit Findings

No matters were reported