

CITY OF BERA
Berea, Kentucky



FINANCIAL STATEMENTS
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Berea
Berea, Kentucky

Report on the Financial Statements

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, 2017, 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 auditors' 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, 2017, 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 and pension schedules on pages 4–16 and 42–49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The proprietary budgetary comparison schedules, and combining nonmajor fund financial statements, 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 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 also not a required part of the basic financial statements.

The proprietary budgetary comparison schedules, combining nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and 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 proprietary budgetary comparison schedules, combining nonmajor fund financial statements, 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.

Prior-Year Comparative Information

We have previously audited the City's 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated October 4, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2017, 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 the City of Berea, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
October 21, 2017

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, 2017. Please read the following in conjunction with the auditors' report on pages 1-3 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 auditors' report, the basic financial statements of the City and the independent auditors' 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, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

These two statements report the net 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, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

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

NET 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.

	Governmental Activities	Business-type Activities	2017 Total Primary Government	2016 Total Primary Government
Current Assets	\$ 13,386,523	\$ 10,665,970	\$ 24,052,493	\$ 24,000,970
Capital Assets	30,389,825	41,061,827	71,451,652	66,734,936
Other Noncurrent Assets	7,500	3,251,705	3,259,205	2,165,238
Total Assets	<u>43,783,848</u>	<u>54,979,502</u>	<u>98,763,350</u>	<u>92,901,144</u>
Deferred Outflows of Resources	<u>1,988,217</u>	<u>1,379,984</u>	<u>3,368,201</u>	<u>2,653,820</u>
Total Assets and Deferred Outflow of Resources	<u>45,772,065</u>	<u>56,359,486</u>	<u>102,131,551</u>	<u>95,554,964</u>
Current Liabilities	2,254,821	4,577,922	6,832,743	6,139,454
Long-term Liabilities	<u>14,524,554</u>	<u>17,766,108</u>	<u>32,290,662</u>	<u>28,226,325</u>
Total Liabilities	<u>16,779,375</u>	<u>22,344,030</u>	<u>39,123,405</u>	<u>34,365,779</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Position:				
Invested in Capital Assets				
Net of Related Debt	24,098,330	24,855,748	48,954,078	47,178,569
Restricted	702,979	2,530,831	3,233,810	2,048,052
Unrestricted	<u>4,191,381</u>	<u>6,628,877</u>	<u>10,820,258</u>	<u>11,962,564</u>
Total Net Position	<u>\$ 28,992,690</u>	<u>\$ 34,015,456</u>	<u>\$ 63,008,146</u>	<u>\$ 61,189,185</u>
Total Liabilities and Net Position	<u>\$ 45,772,065</u>	<u>\$ 56,359,486</u>	<u>\$ 102,131,551</u>	<u>\$ 95,554,964</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition.

The City's total assets increased by over \$5.8 million. The majority of this increase was a result of the construction in progress of the new City Hall which will be complete in mid-FY17-18. Current year deferred outflows related to pension expenses increased by nearly \$800,000.

Construction of the new City Hall resulted in approximately \$4.4 million of new debt and \$500,000 of short term payables. Additionally, the net pension liability increased by \$1.6 million. These increases in liabilities were offset by principal payments of \$1,951,000 on the City's existing bonds and notes, which resulted in an overall increase in total liabilities of \$4.8 million.

Overall, the assets and deferred outflows of the City of Berea exceeded liabilities by \$63,008,146. This was a 3 percent increase in net position from the prior fiscal year. However, 259 percent of the increase reflects 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 \$3,223,810 of the City's net position represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$10,820,258 is unrestricted. The City's unrestricted portions of total net position decreased by approximately \$1.1 million. This is primarily due to the use of City's investments toward the City Hall project.

Table 2

	Governmental Activities	Business-type Activities	2017 Total Primary Government	2016 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 344,838	\$ 16,380,733	\$ 16,725,571	\$ 17,751,241
Operating Grants & Contributions	887,327	-	887,327	893,946
Capital Grants & Contributions	246,510	213,872	460,382	1,738,003
General Revenue				
Taxes	2,157,652	-	2,157,652	2,103,044
License fees	10,411,545	-	10,411,545	9,554,655
Permits	169,731	-	169,731	178,167
Investment Earnings	52,475	47,724	100,199	99,650
Other Revenues	259,001	-	259,001	294,132
Total Revenues	14,529,079	16,642,329	31,171,408	32,612,838
<u>Program Expenses</u>				
General Government	1,867,882	-	1,867,882	2,162,112
Public Safety - Police	2,907,299	-	2,907,299	3,207,885
Public Safety - Fire	1,836,059	-	1,836,059	1,623,964
Public Works	2,188,802	-	2,188,802	2,608,130
Codes enforcement	440,699	-	440,699	379,396
Parks and Recreation	1,116,129	-	1,116,129	878,772
GIS/Surveying	199,842	-	199,842	190,254
Business Development	95,990	-	95,990	59,970
Tourism	1,240,008	-	1,240,008	1,252,360
Information Technology	154,973	-	154,973	-
State Contracts	103,203	-	103,203	120,452
Interest on Long-term Debt	61,779	-	61,779	50,547
Utilities	-	16,411,767	16,411,767	16,040,711
Total Program Expenses	12,212,665	16,411,767	28,624,432	28,574,553
Gain/(Loss) on Sale of Property	22,259	(750,274)	(728,015)	(248,082)
Change in Net Position	\$ 2,338,673	\$ (519,712)	\$ 1,818,961	\$ 3,790,203

The City's Change in Net Position above includes depreciation expenses that are not cash expenditures of the City. Additionally, the Change in Net Position above includes amortized changes in the net pension liability which are also not cash expenditures of the City. These expenses are never considered as part of the City's budget process for governmental activities. The principal portions of debt obligations are excluded from the above but are reflected as debt service expenditures along with capital outlay expenditures in the City's budget for governmental activities. The business-type activities are budgeted on a full accrual basis, which includes depreciation expense but does not include debt service principal.

Governmental activities increased the City's total net position by \$2,338,673 which is a 9 percent increase over the prior year's change in net position from governmental activities. As will be discussed in more detail, the primary driver of the increase in the change in net position is due to a \$1 million increase in general revenues, combined with a decrease in expenses for over \$321,000.

Business-type activities decreased the City's net position by \$519,712 compared to the prior year's increase in net position of \$1,648,301. However, this decrease is primarily due to a loss on the sale of assets as the book value of these assets exceeded any proceeds received from their disposal. Like depreciation or amortization, this is a non-cash expenditure. The majority of the disposed assets resulted from the upgrade of the Lewis Street Substation in the prior year. Additionally, the fixed asset list was purged of old assets that the city no longer owns and should have been removed in years past.

Revenue from the sale of water, sewer and electric service was consistent from the prior year. There were no rate increases to any of the services during fiscal year 2017 beyond what was passed through from Kentucky Utilities.

Total operating expenses for business-type activities increased by \$371,000 (2%). A sharp increase in the cost of purchase power was observed as a result of high demand peaks but overall low kilowatt per hour usage. However, a power cost adjustment mechanism is in place to recapture any differences between purchase power cost and the sale of electric to BMU customers. This recapture will occur gradually over the following fiscal year. The increase in the cost of purchased power was offset by a decrease in expenses in most other areas.

GOVERNMENTAL ACTIVITIES

As noted earlier, the City of Berea uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of usable resources.

Governmental funds are accounted for using the modified accrual basis of accounting where expenditures include debt principal payments and capital outlay.

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

Table 3

	2017	2016
Revenues		
Taxes	\$ 2,157,652	\$ 2,103,044
Licenses and permits	10,581,276	9,732,822
Charges for Services	344,838	320,338
Fines & Forfeits	56,911	62,260
Intergovernmental	1,133,837	893,946
Other Revenues	<u>254,565</u>	<u>282,915</u>
Total Revenues	<u>14,529,079</u>	<u>13,395,325</u>
Expenditures		
General Government	1,979,957	1,965,795
Public Safety - Police	2,587,246	2,459,395
Public Safety - Fire	1,561,712	1,412,376
Public Works	1,735,047	2,136,367
Codes Enforcement	397,663	363,312
Parks and Recreation	681,472	622,293
GIS/Surveying	179,736	168,716
Business Development	91,288	55,013
Information Technology	144,682	-
Tourism	1,159,399	1,199,816
State Contracts	103,203	120,452
Capital Outlay	7,494,931	1,940,906
Debt Service	<u>385,593</u>	<u>365,782</u>
Total Expenditures	<u>18,501,929</u>	<u>12,810,223</u>
Excess revenues over (under) before other sources (uses)	<u>(3,972,850)</u>	<u>585,102</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	63,296	4,824
Financing proceeds	<u>4,388,228</u>	<u> </u>
Total Other Financing Sources (Uses)	<u>4,451,524</u>	<u>4,824</u>
Net Change in Fund Balance	478,674	589,926
Fund balances - beginning	<u>11,492,455</u>	<u>10,902,529</u>
Fund balances - ending	<u>11,971,129</u>	<u>11,492,455</u>

Total fund balance for all governmental funds has increased 4 percent from the prior year. The General Fund's increase in fund balance was \$200,237. Tourism's increased by approximately \$174,780. The fund balance for Municipal Road Aid increased by \$93,592 as funds were reserved for the Hughes/Cumberland drainage project which will not be complete until the early part of fiscal year 2018. Cash remaining in the Menalaus Pike Fund was transferred into the general fund as that project has now been completed. The Menalaus Pike Fund has closed out completely.

Total governmental revenues increased by over \$1.1 million. Of this, occupational license fees on payroll grew by approximately \$326,000 (5%), and occupational license fees on net profits increased by over \$502,000 (33%). Restaurant tax increased by nearly \$56,000 (5%).

Total governmental expenditures increased by \$5,691,706 (44%) percent from the prior year. This increase is primarily driven by the construction of the new City Hall project. In the absence of this project, total governmental expenditures decreased by approximately \$380,000. General fund expenditures increased by \$71,000, primarily resulting from increases in personnel. Tourism fund expenditures decreased by over \$98,000 due to the completion of the Wayfinding Project.

BUDGET HIGHLIGHTS

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

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

**Table 4
General Fund Revenues
Budget to Actual**

	Budget	Actual	Variance
Taxes	\$ 787,214	\$ 858,373	\$ 71,159
Licenses, Permits & Billings	7,737,700	10,581,276	2,843,576
Charges for Services	120,000	149,517	29,517
Fines & Forfeitures	27,000	56,911	29,911
Intergovernmental	912,250	693,532	(218,718)
Other Revenue	<u>108,875</u>	<u>159,396</u>	<u>50,521</u>
Total Revenues	<u>\$ 9,693,039</u>	<u>\$ 12,499,005</u>	<u>\$ 2,805,966</u>

Table 5
General Fund Expenditures
Budget to Actual

	Budget	Actual	Variance
Administration	\$ 2,393,218	\$ 1,974,007	\$ (419,211)
Police	2,710,500	2,587,110	(123,390)
Fire	1,696,000	1,561,712	(134,288)
Public Works	2,172,606	1,627,549	(545,057)
Codes Enforcement	436,500	397,663	(38,837)
Parks & Recreation	822,755	681,472	(141,283)
GIS/Surveying	199,177	179,736	(19,441)
Information Technology	187,407	144,682	(42,725)
Business Development	116,725	91,288	(25,437)
Capital Outlay	11,831,310	7,278,377	(4,552,933)
Debt Service	<u>262,415</u>	<u>280,982</u>	<u>18,567</u>
 Total Expenditures	 <u>\$ 22,828,613</u>	 <u>\$ 16,804,578</u>	 <u>\$ (6,024,035)</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 \$2,805,966 or 28 percent.

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 \$6,024,035 or 26 percent below budgeted amounts. The majority of this difference was based on the construction of the Municipal Center and other capital items or projects that were budgeted for but not purchased during the fiscal year.

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, 2017, totals \$71,451,652, a 7 percent increase from the prior year. Major capital asset transactions during the year include:

- Completion of the Wayfinding project with a total project cost of \$422,833 over a multi-year period, \$93,456 of which was incurred during fiscal year 2017.
- Completion of the solids handling system at the BMU water treatment plant with a total project cost of \$228,970 over a multi-year period, \$29,232 of which was incurred during fiscal year 2017.
- Purchase of a Freightliner Grapple Truck at a cost of \$136,785.
- Purchase of two Ford F350 trucks with snow plows at a cost of \$56,177 each.
- Upgrade of the sewer line at city hall at a cost of \$50,049.
- 52% completion of City Hall project with a total project cost of \$12.6 million over a multi-year period, \$6,572,643 of which was incurred during fiscal year 2017.

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

Table 6

	Governmental Activities	Business-type Activities	2017 Total Primary Government	2016 Total Primary Government
Land, Buildings & Improvements	\$ 13,938,345	\$ 2,969,017	\$ 16,907,362	\$ 16,425,634
Construction in Progress	8,015,368	1,738,749	9,754,117	2,418,454
Infrastructure/Utility Plant	14,198,313	63,707,145	77,905,458	79,167,257
Vehicles, Equipment & Other	7,832,352	2,556,042	10,388,394	10,201,359
Total Capital Assets	<u>43,984,378</u>	<u>70,970,953</u>	<u>114,955,331</u>	<u>108,212,704</u>
Less Accumulated Depreciation	(13,594,553)	(29,909,126)	(43,503,679)	(41,477,768)
Total Net Capital Assets	<u>\$ 30,389,825</u>	<u>\$ 41,061,827</u>	<u>\$ 71,451,652</u>	<u>\$ 66,734,936</u>

DEBT

The City's long term debt at June 30, 2017, totaled \$34,160,249. The City's debt increased by \$4,138,165 (14%) during the fiscal year. This increase in debt is the result of draws totaling \$4,388,228 on a \$9.9 million bond anticipation note for construction of the new City Hall. Upon 85% completion of construction, the note will be paid off using bonds issued by USDA Rural Development. The total new debt at the end of the project will be roughly \$10.4 million.

Also contributing to the increase in the City's debt is a \$1.6 million increase in the net pension liability. See Note 10 for a more detailed explanation of this debt.

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

Table 7

	Governmental Activities	Business-type Activities	2017 Total Primary Government	2016 Total Primary Government
Leases	\$ 1,144,095	\$ -	\$ 1,144,095	\$ 1,217,243
Bonds payable	255,000	10,210,000	10,465,000	11,835,000
Loans payable	4,388,228	5,857,914	10,246,142	6,348,689
Net Pension Liability	8,296,089	3,005,309	11,301,398	9,697,588
Compensated Absences	<u>770,927</u>	<u>232,687</u>	<u>1,003,614</u>	<u>923,564</u>
			-	
Total Debt Outstanding	<u>\$ 14,854,339</u>	<u>\$ 19,305,910</u>	<u>\$ 34,160,249</u>	<u>\$ 30,022,084</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 2018 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 monies for all departments of the City.

The 2018 Budget continues to financially support the Fund Balance Reserve and the Capital Sinking Fund. The Fund Balance Reserve will grow by \$500,000; bringing the total monies in reserve at the end of the fiscal year to \$2,700,000. The monies in the Reserve Fund represent two months of the City's operating expenses, excluding any capital expenditures for projects or equipment. The Capital Sinking Fund will support the purchase of the Quiet Fire Apparatus and still have an ending fund balance of \$2,250,000. 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 \$552,446. Combining the three sources of reserve funds the 2018 budget expresses a total unbudgeted reserve of \$5,524,368. 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, 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 and the State Economic Development Cabinet has shown the Menelaus Road Industrial site three times in as many months. Two of the prospects will make return trips to Berea to continue conversations. Not only would the infusion of a new industrial client improve the availability of job opportunities it would improve the City's tax base and also help influence the State Transportation Cabinet to release funds for the building of the second phase of the Berea Bypass.

The 2018 Budget includes the funds for the construction completion of the Police, Fire and Municipal Building or The New City Hall. The City has been granted a Rural Development Loan to cover the cost of the new facility. The life of the loan will be for a period of forty years at an interest rate of 3.15%. For the first time in Berea's history the Police Department will operate out of a modern space designed to complement their work. The Fire Department will operate out of a modern space that will accommodate twenty-four hour a day living space as well as up to date apparatus facilities and training space.

The final payment of the 2008 Park Bond will be satisfied in December of 2017, in the amount of \$262,417 for both principle and interest. The only other indebtedness of the City is the balance payable to People's Bank of Madison County for the purchase of the Tolle Building. The remaining balance of the note is nearing one million dollars. The interest and principle of the

People's Bank note is being paid from the Tourism Fund and not from the City's General Fund account. The City's debt service and cash flow position along with the low interest rate of the Rural Development loan has made the timing of the construction of City Hall very desirable.

The biggest challenge 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 capacities.

One factor that most threatens the financial integrity of the City is our ability to provide competitive 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 with regard to retirement packages. Presently, the State has 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 last year infrastructure improvements remains 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 major focus of activity for the water utility is the continued planning for the upgrade including increased capacity of the Owsley Fork Dam. The major hurdle for moving forward with this project is gaining approval from the Army Corp of Engineers. NRCS continues to be our partner in this project. Infrastructure for the electric utility has been upgraded and has become stable. Little expenditure will be made this year for electric infrastructure upgrades with the exception of routine maintenance. Rates for Sewer and Water remained unchanged in the present budget year with electric increasing by seven percent directly as a result of our purchase power contract with KU. Berea's contract with KU ends in May of 2019. A contract with AMO Ohio has already been signed and the agreed upon price will provide a savings to the utilities.

The 2018 Budget carried over much of the infrastructure projects that were contained in the 2017 Budget. These projects were continued because of our inability to secure rights of way both on the US-25 project and the Indian Fort Trail project along Short Line Pike. The State funded US-25 project is scheduled to be bid in November 2017. The Indian Fort Trail Project is in the City's General Fund and is expected to be bid and ready for construction in the spring of 2018. Included in the General Fund budget for 2018 is the installation of a splash pad water feature at the Berea Pool and the installation of new stadium seating at Duerson Stadium.

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 time 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, 2017

	Primary Government			2016 Totals
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,923,235	\$ 1,100,583	\$ 4,023,818	\$ 4,451,362
Investments - certificates of deposit	7,871,162	7,047,506	14,918,668	14,948,689
Receivables, net	1,869,310	2,487,157	4,356,467	4,202,212
Other receivables	-	27,446	27,446	375,958
Interest receivable	5,817	3,278	9,095	8,861
Other assets	721,768	-	721,768	13,888
Total current assets	<u>13,391,292</u>	<u>10,665,970</u>	<u>24,057,262</u>	<u>24,000,970</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	2,530,831	2,530,831	1,481,699
Inventory	-	720,874	720,874	678,072
Capital assets				
Construction in progress	8,015,368	1,738,749	9,754,117	2,418,454
Land and easements	5,279,000	264,242	5,543,242	5,505,242
Land improvements, net	889,220	66,484	955,704	576,925
Buildings and improvements, net	2,704,560	1,828,526	4,533,086	4,874,094
Depreciable infrastructure, net	10,986,004	-	10,986,004	11,374,701
Plant and sewer system, net	-	12,831,963	12,831,963	13,665,803
Plant and electric system, net	-	9,708,781	9,708,781	10,240,149
Plant and water system, net	-	13,691,124	13,691,124	14,598,437
Vehicles and equipment	2,379,942	931,958	3,311,900	3,318,351
Software, net	135,731	-	135,731	162,780
Other assets	2,731	-	2,731	5,467
Total noncurrent assets	<u>30,392,556</u>	<u>44,313,532</u>	<u>74,706,088</u>	<u>68,900,174</u>
Total assets	<u>43,783,848</u>	<u>54,979,502</u>	<u>98,763,350</u>	<u>92,901,144</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	1,988,217	715,551	2,703,768	1,906,333
Defeasance on refunding	-	664,433	664,433	747,487
Total assets and deferred outflows of resources	<u>\$ 45,772,065</u>	<u>\$ 56,359,486</u>	<u>\$ 102,131,551</u>	<u>\$ 95,554,964</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,021,198	\$ 1,963,135	\$ 2,984,333	\$ 2,721,695
Accrued payroll	303,112	77,841	380,953	548,488
Accrued taxes and other liabilities	3,373	155,662	159,035	145,487
Accrued interest payable	701	4,882	5,583	6,659
Unearned revenue	87,084	-	87,084	92,269
Customer deposits	-	698,435	698,435	669,050
Retainage payable	504,172	-	504,172	-
Compensated absences	5,396	-	5,396	4,612
Current portion of long-term obligations	329,785	1,677,967	2,007,752	1,951,194
Total current liabilities	<u>2,254,821</u>	<u>4,577,922</u>	<u>6,832,743</u>	<u>6,139,454</u>
Noncurrent liabilities				
Compensated absences	770,927	232,687	1,003,614	923,564
Noncurrent portion of long-term obligations	5,457,538	14,528,112	19,985,650	17,605,173
Net pension liability	8,296,089	3,005,309	11,301,398	9,697,588
Total noncurrent liabilities	<u>14,524,554</u>	<u>17,766,108</u>	<u>32,290,662</u>	<u>28,226,325</u>
Total liabilities	<u>16,779,375</u>	<u>22,344,030</u>	<u>39,123,405</u>	<u>34,365,779</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	-	-	-	-
NET POSITION				
Net invested in capital assets	24,098,330	24,855,748	48,954,078	47,178,569
Restricted for				
Debt service	-	923,712	923,712	733,057
Depreciation	-	1,607,119	1,607,119	748,642
Other purposes	702,979	-	702,979	566,355
Unrestricted	4,191,381	6,628,877	10,820,258	11,962,562
Total net position	<u>28,992,690</u>	<u>34,015,456</u>	<u>63,008,146</u>	<u>61,189,185</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 45,772,065</u>	<u>\$ 56,359,486</u>	<u>\$ 102,131,551</u>	<u>\$ 95,554,964</u>

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

CITY OF BEREA, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2016 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,867,882	\$ -	\$ -		\$ (1,867,882)	\$ -	\$ (1,867,882)	\$ (2,162,112)
Public safety-Police	2,907,299	35,110	264,357	-	(2,607,832)	-	(2,607,832)	(2,991,579)
Public safety-Fire	1,836,059	-	150,377	246,510	(1,439,172)	-	(1,439,172)	(1,506,238)
Public works	2,188,802	-	338,944	-	(1,849,858)	-	(1,849,858)	(629,592)
Codes enforcement	440,699	3,887	-	-	(436,812)	-	(436,812)	(373,605)
Parks and recreation	1,116,129	110,520	15,000	-	(990,609)	-	(990,609)	(760,755)
GIS/Surveying	199,842	-	-	-	(199,842)	-	(199,842)	(190,254)
Business development	95,990	-	-	-	(95,990)	-	(95,990)	(59,970)
Tourism	1,240,008	195,321	15,446	-	(1,029,241)	-	(1,029,241)	(1,066,406)
Information technology	154,973	-	-	-	(154,973)	-	(154,973)	-
State contracts	103,203	-	103,203	-	-	-	-	-
Interest on long-term debt	61,779	-	-	-	(61,779)	-	(61,779)	(50,547)
Total governmental activities	<u>12,212,665</u>	<u>344,838</u>	<u>887,327</u>	<u>246,510</u>	<u>(10,733,990)</u>	<u>-</u>	<u>(10,733,990)</u>	<u>(9,791,058)</u>
Business-type activities								
Berea Municipal Utilities	<u>16,411,767</u>	<u>16,380,733</u>	<u>-</u>	<u>213,872</u>	<u>-</u>	<u>182,838</u>	<u>182,838</u>	<u>1,599,695</u>
Total business-type activities	<u>16,411,767</u>	<u>16,380,733</u>	<u>-</u>	<u>213,872</u>	<u>-</u>	<u>182,838</u>	<u>182,838</u>	<u>1,599,695</u>
Total primary government	<u>\$ 28,624,432</u>	<u>\$ 16,725,571</u>	<u>\$ 887,327</u>	<u>\$ 460,382</u>	<u>(10,733,990)</u>	<u>182,838</u>	<u>(10,551,152)</u>	<u>(8,191,363)</u>
General revenues								
Taxes:								
Property taxes, levied for general purposes					858,373	-	858,373	885,414
Transient room tax					202,144	-	202,144	176,142
Restaurant tax					1,097,135	-	1,097,135	1,041,488
License fees:								
Franchise					1,091,138	-	1,091,138	1,093,827
Payroll					6,756,065	-	6,756,065	6,429,888
Insurance premiums					964,978	-	964,978	946,272
Occupational					1,583,887	-	1,583,887	1,067,766
ABC					15,477	-	15,477	16,902
Permits:								
Building					115,396	-	115,396	97,054
Electric					52,510	-	52,510	79,828
Other					1,825	-	1,825	1,285
Investment earnings					52,475	47,724	100,199	99,650
Miscellaneous					259,001	-	259,001	294,132
Total general revenues					13,050,404	47,724	13,098,128	12,229,648
Gain (loss) on disposal of capital assets					22,259	(750,274)	(728,015)	(248,082)
Transfers in (out)					-	-	-	-
Change in Net Position					2,338,673	(519,712)	1,818,961	3,790,203
Net position-beginning					26,654,017	34,535,168	61,189,185	57,398,982
NET POSITION-ENDING					<u>\$ 28,992,690</u>	<u>\$ 34,015,456</u>	<u>\$ 63,008,146</u>	<u>\$ 61,189,185</u>

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

CITY OF BEREA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2016 Totals</u>
ASSETS					
Cash and cash equivalents	\$ 1,698,891	\$ 367,373	\$ 856,971	\$ 2,923,235	\$ 2,644,473
Investments	6,894,365	872,487	104,310	7,871,162	7,946,605
Receivables, net	1,517,680	223,051	128,579	1,869,310	1,749,638
Interest receivable	5,213	529	75	5,817	5,604
Other assets	718,768	-	3,000	721,768	13,888
Due from other funds	-	-	-	-	2,798
Total assets	<u>\$ 10,834,917</u>	<u>\$ 1,463,440</u>	<u>\$ 1,092,935</u>	<u>\$ 13,391,292</u>	<u>\$ 12,363,006</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 840,784	\$ 94,346	\$ 86,068	\$ 1,021,198	\$ 501,812
Accrued payroll and related liabilities	291,255	11,857	-	303,112	263,545
Accrued taxes and other liabilities	1,423	1,950	-	3,373	3,206
Compensated absences	5,396	-	-	5,396	4,612
Unearned revenue	-	70,749	16,335	87,084	92,269
Due to other funds	-	-	-	-	5,107
Total liabilities	<u>1,138,858</u>	<u>178,902</u>	<u>102,403</u>	<u>1,420,163</u>	<u>870,551</u>
Fund balances					
Nonspendable	718,767	-	-	718,767	-
Restricted	-	-	702,979	702,979	566,355
Committed	4,950,000	-	-	4,950,000	4,104,848
Assigned	3,283,865	1,284,538	287,553	4,855,956	6,272,963
Unassigned	743,427	-	-	743,427	548,289
Total fund balances	<u>9,696,059</u>	<u>1,284,538</u>	<u>990,532</u>	<u>11,971,129</u>	<u>11,492,455</u>
Total liabilities and fund balances	<u>\$ 10,834,917</u>	<u>\$ 1,463,440</u>	<u>\$ 1,092,935</u>	<u>\$ 13,391,292</u>	<u>\$ 12,363,006</u>

Amounts reported for <i>governmental activities</i> in the statement of net position are different because :		
Fund balances reported above	\$ 11,971,129	\$ 11,492,455
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	30,389,825	23,670,239
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(701)	(1,368)
Bond discounts are amortized over the life of the bond and is not reported in the funds.	2,731	5,467
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	1,988,217	1,399,331
Accounts payable and accrued payroll related to settlement agreement is not reported in the funds due to it not being payable in the current period.	-	(368,454)
Retainage payable for construction in progress is not due and payable in the current period and therefore is not reported in the funds.	(504,172)	-
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds.	(14,854,339)	(9,543,653)
Net position of governmental activities	<u>\$ 28,992,690</u>	<u>\$ 26,654,017</u>

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

CITY OF BEREA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2017

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2016 Totals</u>
REVENUES					
Taxes	\$ 858,373	\$ 1,299,279	\$ -	\$ 2,157,652	\$ 2,103,044
Licenses and permits	10,581,276	-	-	10,581,276	9,732,822
Charges for services	149,517	144,364	50,957	344,838	320,338
Fines and forfeits	56,911	-	-	56,911	62,260
Intergovernmental	693,532	15,446	424,859	1,133,837	893,946
Other revenues	159,396	78,054	17,115	254,565	282,915
Total revenues	<u>12,499,005</u>	<u>1,537,143</u>	<u>492,931</u>	<u>14,529,079</u>	<u>13,395,325</u>
EXPENDITURES					
Current:					
General administration	1,974,007	-	5,950	1,979,957	1,965,795
Public safety-police	2,587,110	-	136	2,587,246	2,459,395
Public safety-fire	1,561,712	-	-	1,561,712	1,412,376
Public works	1,627,549	-	107,498	1,735,047	2,136,367
Codes enforcement	397,663	-	-	397,663	363,312
Parks and recreation	681,472	-	-	681,472	622,293
GIS/Surveying	179,736	-	-	179,736	168,716
Business development	91,288	-	-	91,288	55,013
Information technology	144,682	-	-	144,682	-
Tourism	-	1,119,076	40,323	1,159,399	1,199,816
State contracts	-	-	103,203	103,203	120,452
Capital outlay	7,278,377	138,676	77,878	7,494,931	1,940,906
Debt service	280,982	104,611	-	385,593	365,782
Total expenditures	<u>16,804,578</u>	<u>1,362,363</u>	<u>334,988</u>	<u>18,501,929</u>	<u>12,810,223</u>
Excess (deficiency) of revenues over expenditures	<u>(4,305,573)</u>	<u>174,780</u>	<u>157,943</u>	<u>(3,972,850)</u>	<u>585,102</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of assets	63,296	-	-	63,296	4,824
Financing proceeds	4,388,228	-	-	4,388,228	-
Transfers in (out)	54,286	-	(54,286)	-	-
Total other financing sources and uses	<u>4,505,810</u>	<u>-</u>	<u>(54,286)</u>	<u>4,451,524</u>	<u>4,824</u>
Net change in fund balances	200,237	174,780	103,657	478,674	589,926
Fund balances-beginning	<u>9,495,822</u>	<u>1,109,758</u>	<u>886,875</u>	<u>11,492,455</u>	<u>10,902,529</u>
Fund balances-ending	\$ 9,696,059	\$ 1,284,538	\$ 990,532	\$ 11,971,129	\$ 11,492,455
Reconciliation to government-wide change in net position:					
Net change in fund balances				\$ 478,674	\$ 589,926
add: capital outlay expenditures capitalized				7,494,931	1,940,906
add: contributed assets				-	1,528,500
add: debt service expenditures				385,593	365,782
less: proceeds from sale of assets				(63,296)	(4,824)
less: financing proceeds				(4,388,228)	-
gain (loss) on disposal of capital assets				22,259	(248,082)
less: amortization of deferred bond cost				(2,735)	(2,735)
change in long term compensated absences				(68,944)	(10,015)
less: depreciation on governmental activities assets				(1,238,488)	(1,164,545)
expenses related to settlement accrual				368,454	(368,454)
change in net pension liability				(587,768)	(434,010)
less: interest on long term debt				(61,779)	(50,547)
Change in net position Governmental Activities				<u>\$ 2,338,673</u>	<u>\$ 2,141,902</u>

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

CITY OF BEREA, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Business-Type Activities	
	Utilities	
	2017	2016 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,100,583	\$ 1,806,889
Investments - certificates of deposit	7,047,506	7,002,084
Receivables, net	2,451,791	2,334,121
Grant receivables	35,366	118,453
Other receivables	27,446	375,958
Interest receivable	3,278	3,257
Due from other funds	-	2,309
Total current assets	10,665,970	11,643,071
Noncurrent assets		
Restricted cash and cash equivalents	2,530,831	1,481,699
Inventory	720,874	678,072
Capital assets		
Construction in progress	1,738,749	1,327,587
Land and easements	264,242	264,242
Land improvements	84,201	84,201
Buildings and improvements	2,620,574	2,620,574
Plant and electric equipment	14,784,759	15,241,718
Plant and water equipment	18,540,242	19,434,138
Plant and sewer equipment	30,382,144	30,307,023
Vehicles and equipment	2,556,042	2,445,875
Less accumulated depreciation	(29,909,126)	(28,660,661)
Total noncurrent assets	44,313,532	45,224,468
Total assets	54,979,502	56,867,539
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	715,551	507,002
Defeasance on refunding	664,433	747,487
Total assets and deferred outflows of resources	\$ 56,359,486	\$ 58,122,028
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,963,135	\$ 2,069,210
Accrued payroll and related liabilities	77,841	67,162
Accrued taxes and other liabilities	155,662	142,281
Accrued interest payable	4,882	5,291
Customer deposits	698,435	669,050
Bonds, notes, and loans payable	1,677,967	1,628,046
Total current liabilities	4,577,922	4,581,040
Noncurrent liabilities		
Compensated absences	232,687	221,589
Bonds, notes, and loans payable	14,528,112	16,206,078
Net pension liability	3,005,309	2,578,153
Total noncurrent liabilities	17,766,108	19,005,820
Total liabilities	22,344,030	23,586,860
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	-	-
NET POSITION		
Net invested in capital assets	24,855,748	25,230,573
Restricted for debt service	923,712	733,057
Restricted for depreciation reserve	1,607,119	748,642
Unrestricted	6,628,877	7,822,896
Total net position	34,015,456	34,535,168
Total liabilities, deferred inflows of resources and net position	\$ 56,359,486	\$ 58,122,028

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

CITY OF BEREA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2017

	Business-type Activities	
	Utilities	
	2017	2016 Totals
	<u>2017</u>	<u>2016 Totals</u>
Operating revenues		
Electric service	\$ 10,257,950	\$ 10,211,799
Water service	3,144,741	3,032,619
Sewer service	2,604,543	2,394,992
Other revenues	373,499	1,791,493
	<u>16,380,733</u>	<u>17,430,903</u>
Operating expenses		
Administration	1,289,968	1,213,337
Electric	9,894,283	9,650,998
Water	1,239,449	1,183,434
Sewer	1,252,200	1,201,043
Depreciation	2,299,749	2,307,514
	<u>15,975,649</u>	<u>15,556,326</u>
Operating income	<u>405,084</u>	<u>1,874,577</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	47,724	48,606
Interest expense	(370,334)	(418,601)
Amortization	(65,784)	(65,784)
(Loss) on disposal of capital assets	(750,274)	-
	<u>(1,138,668)</u>	<u>(435,779)</u>
Total nonoperating revenue (expense)	<u>(1,138,668)</u>	<u>(435,779)</u>
Income before capital contributions and transfers	(733,584)	1,438,798
Capital contributions		
Electric, water and sewer connection fees	92,200	68,050
Developer contributions	12,924	-
Grant revenues	108,748	141,453
Transfers in (out)	<u>-</u>	<u>-</u>
Change in net position	(519,712)	1,648,301
Total net position-beginning	<u>34,535,168</u>	<u>32,886,867</u>
TOTAL NET POSITION-ENDING	<u>\$ 34,015,456</u>	<u>\$ 34,535,168</u>

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

CITY OF BEREA, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2017

	Business-type Activities	
	Utilities	
	2017	2016 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 16,654,341	\$ 17,305,115
Payments to suppliers	(11,487,357)	(10,488,823)
Payments for employee services and benefits	<u>(2,284,817)</u>	<u>(2,105,373)</u>
Net cash provided by operating activities	<u>2,882,167</u>	<u>4,710,919</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	284,035	121,107
Principal paid on capital debt	(1,610,774)	(1,565,904)
Purchases of capital assets and construction in progress	(857,670)	(3,573,719)
Proceeds from sale of capital assets	13,530	-
Interest paid on capital debt	<u>(370,743)</u>	<u>(419,005)</u>
Net cash (used) by capital and related financing activities	<u>(2,541,622)</u>	<u>(5,437,521)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity, net	(45,422)	466,446
Interest and dividends	<u>47,703</u>	<u>49,177</u>
Net cash provided by investing activities	<u>2,281</u>	<u>515,623</u>
Net increase (decrease) in cash and cash equivalents	342,826	(210,979)
Balances-beginning of the year	<u>3,288,588</u>	<u>3,499,567</u>
BALANCES-END OF THE YEAR	<u>\$ 3,631,414</u>	<u>\$ 3,288,588</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 405,084	\$ 1,874,577
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	2,299,749	2,307,514
Net pension liability	218,609	156,903
Change in assets and liabilities		
Receivables, net	230,842	(126,230)
Inventory	(42,802)	190,962
Due to/from other funds	2,309	(2,309)
Accounts payable	(296,167)	281,989
Accrued vacation, sick and holiday	11,098	9,854
Accrued payroll and related taxes	10,679	17,217
Accrued taxes	13,381	(17,818)
Customer deposits	<u>29,385</u>	<u>18,260</u>
Net cash provided by operating activities	<u>\$ 2,882,167</u>	<u>\$ 4,710,919</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Payables for capital items, net	<u>\$ 190,092</u>	<u>\$ (470,103)</u>
Amortization expense	<u>\$ 65,784</u>	<u>\$ 65,784</u>

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

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The Berea Tourism Commission was created by Ordinance No. 7.82, which was adopted April 6, 1982. The Commission is composed of seven members appointed by the Mayor pursuant to KRS 91A.360. The Commission submits an annual request for operating funds to the Berea City Council and an annual report of the operation of the Commission during the preceding year. Effective July 1, 1997, the City is providing accounting services for the Commission. 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 other five members are appointed by the Mayor for four-year terms. The City Council approves the Authority's annual operating budget in conjunction with the City's annual budget authorization.

B. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements include a statement of net 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 on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, fund balance or net position, revenues and expenditures or expenses.

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, continued

Fund Financial Statements, continued

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

The following funds are used by the City of Berea:

Governmental Funds

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

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

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

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

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

Tourism Fund - A special revenue fund that receives money from hotel/motel and restaurant taxes and accounts for related expenditures for operations of the Tourism Commission. 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 BERA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, 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.

C. Basis of Accounting

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

Government-wide Financial Statements

The Statement of Net 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 BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Budgeting

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

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

E. Cash and Investments

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

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

Investments 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.

F. Accounts Receivable and Revenues

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

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

G. 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.

H. 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, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

J. 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.

K. 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.

L. Fund Balances

Fund balances of the governmental funds are classified as follows:

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

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

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

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balances, continued

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.

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Fire Apparatus	\$ 718,767	\$ -	\$ -	\$ 718,767
Restricted:				
Law enforcement	-	-	133,868	133,868
Road surface repairs	-	-	569,111	569,111
Committed:				
Capital additions	-	-	-	-
Capital projects reserve	2,250,000	-	-	2,250,000
Fund balance reserve	2,700,000	-	-	2,700,000
Assigned:				
Capital additions	2,071,087	-	-	2,071,084
Debt service	404,172	-	-	404,172
Other purposes	808,610	1,284,538	287,552	2,380,700
Unassigned	<u>743,427</u>	<u>-</u>	<u>-</u>	<u>743,427</u>
Total fund balances	<u>\$ 9,696,059</u>	<u>\$ 1,284,538</u>	<u>\$ 990,532</u>	<u>\$ 11,971,129</u>

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

M. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 21, 2017, 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, 2017, have not been evaluated by the City.

N. 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 BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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 \$21,889,580. At June 30, 2017, federal depository insurance covered \$375,000 of the City's deposits. The remainder is covered by \$23,382,110 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, 2017, consist entirely of certificates of deposit with maturities of one year or less.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

3. RECEIVABLES

Receivables at year end of the City's major individual funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Tourism Fund	Nonmajor Funds	Governmental Funds Total
Governmental Funds:				
Taxes	\$ 77,912	\$ 223,051	\$ -	\$ 300,963
Licenses, permits, billings	1,404,726	-	-	1,404,726
Charges for service	-	-	-	-
Intergovernmental	59,990	-	128,579	188,569
Other	<u>29,052</u>	<u>-</u>	<u>-</u>	<u>29,052</u>
Gross receivables	1,571,680	223,051	128,579	1,923,310
Less: allowance for uncollectible	<u>(54,000)</u>	<u>-</u>	<u>-</u>	<u>(54,000)</u>
Net receivables	<u>\$ 1,517,680</u>	<u>\$ 223,051</u>	<u>\$ 128,579</u>	<u>\$ 1,869,310</u>
Business-type Activities:				
	Total			
Customer	\$ 2,526,791			
Less: allowance for uncollectible	<u>(75,000)</u>			
Net receivables	<u>\$ 2,451,791</u>			

4. CAPITAL ASSETS

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

	July 1, 2016	Additions	Deductions	June 30, 2017
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 5,241,000	\$ 38,000	\$ -	\$ 5,279,000
Construction in progress	<u>1,090,867</u>	<u>7,374,021</u>	<u>(449,520)</u>	<u>8,015,368</u>
Totals	<u>6,331,867</u>	<u>7,412,021</u>	<u>(449,520)</u>	<u>13,294,368</u>
Capital assets that are depreciated:				
Buildings and improvements	7,471,398	20,895	-	7,492,293
Land improvements	744,219	422,833	-	1,167,052
Software	271,763	22,733	(12,000)	282,496
Vehicles	4,892,775	354,401	(304,877)	4,942,299
Equipment	<u>2,590,946</u>	<u>175,119</u>	<u>(158,508)</u>	<u>2,607,557</u>
Totals	15,971,101	995,981	(475,385)	16,491,697
Infrastructure assets	<u>14,184,378</u>	<u>13,935</u>	<u>-</u>	<u>14,198,313</u>
Total depreciable assets	<u>30,155,479</u>	<u>1,009,916</u>	<u>(475,385)</u>	<u>30,690,010</u>
Less accumulated depreciation:				
Buildings and improvements	4,530,527	257,206	-	4,787,733
Land improvements	237,660	40,172	-	277,832
Software	108,983	38,530	(746)	146,767
Vehicles	3,178,206	353,728	(301,788)	3,230,146
Equipment	1,952,054	146,220	(158,508)	1,939,766
Infrastructure assets	<u>2,809,677</u>	<u>402,632</u>	<u>-</u>	<u>3,212,309</u>
Totals	<u>12,817,107</u>	<u>1,238,488</u>	<u>(461,042)</u>	<u>13,594,553</u>
Depreciable capital assets, net	<u>17,338,372</u>	<u>(228,572)</u>	<u>(14,343)</u>	<u>17,095,457</u>
Total capital assets, net	<u>\$ 23,670,239</u>	<u>\$ 7,183,449</u>	<u>\$ (463,863)</u>	<u>\$ 30,389,825</u>

CITY OF BERA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CAPITAL ASSETS (CONTINUED)

	July 1, 2016	Additions	Deductions	June 30, 2017
Business-type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	<u>1,327,587</u>	<u>648,667</u>	<u>(237,505)</u>	<u>1,738,749</u>
Totals	<u>1,591,829</u>	<u>648,667</u>	<u>(237,505)</u>	<u>2,002,991</u>
Capital assets that are depreciated:				
Land improvements	84,201	-	-	84,201
Buildings and improvements	2,620,574	-	-	2,620,574
Electric system	15,241,718	157,430	(614,389)	14,784,759
Water system	19,434,138	260,981	(1,154,877)	18,540,242
Plant and sewer system	30,307,023	75,121	-	30,382,144
Vehicle and equipment	<u>2,445,875</u>	<u>155,986</u>	<u>(45,819)</u>	<u>2,556,042</u>
Totals	70,133,529	649,518	(1,815,085)	68,967,962
Less accumulated depreciation	<u>28,660,661</u>	<u>2,299,749</u>	<u>(1,051,284)</u>	<u>29,909,126</u>
Depreciable capital assets, net	<u>41,472,868</u>	<u>(1,650,231)</u>	<u>(763,801)</u>	<u>39,058,836</u>
Total capital assets, net	<u>\$ 43,064,697</u>	<u>\$ (1,001,564)</u>	<u>\$ (1,001,306)</u>	<u>\$ 41,061,827</u>

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 165,963
Police	182,791
Fire	142,231
Public works	430,171
Parks and recreation	234,496
Codes enforcement	9,757
GIS/Surveying	5,831
Tourism	<u>67,248</u>
 Total depreciation expense	 <u>\$ 1,238,488</u>

5. CONSTRUCTION IN PROGRESS

The City is in progress on the following projects:

	June 30, 2017
Business-type Activities	
Central Park North	\$ 125,336
Walnut Meadow Pump Station	376,061
Reservoir - Raw Water Source Study	1,224,957
Farristown/Industrial Park Extension	<u>12,395</u>
 Total construction in progress	 <u>\$ 1,738,749</u>

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

5. CONSTRUCTION IN PROGRESS (CONTINUED)

Governmental Activities	
Indian Fort Trail – Phase II	\$ 111,250
Ellipse Street Shared Use Path	34,829
Scaffold Cane Bike Trail	3,843
Municipal Center	7,700,952
Rash Road Drainage	13,730
S. Cumberland Drainage	121,090
Tolle Building Renovation	3,500
Tourism Workshop Registration/Website	<u>26,174</u>
Total construction in progress	<u>\$ 8,015,368</u>

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 \$1,080,000 at June 30, 2017.

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, 2017, the City had a balance of \$2,374,851 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, 2017, the City had a balance of \$3,483,063 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, 2017, were \$8,865,000. As of June 30, 2017, the City had a balance of \$9,130,000 on the Series 2013 Bonds. The Series 2013 Bonds bear interest of 2-3%. The bonds mature on January 1, 2025.

CITY OF BEREA, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

BONDS AND NOTES PAYABLE, continued

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

	June 30, 2016	Additions	Deletions	June 30, 2017
Revenue bonds payable	\$ 11,330,000	\$ -	\$ 1,120,000	\$ 10,210,000
Notes payable	6,348,689	-	490,775	5,857,914
Net pension liability	2,578,153	427,156	-	3,005,309
Compensated absences	<u>221,589</u>	<u>11,098</u>	<u>-</u>	<u>232,687</u>
Total debt outstanding	<u>\$ 20,478,431</u>	<u>\$ 438,254</u>	<u>\$ 1,610,775</u>	<u>\$ 19,305,910</u>
Less current portion of:				
Revenue bonds				\$ 1,165,000
Notes payable				495,696
Unamortized premium				<u>17,271</u>
Current portion				<u>1,677,967</u>
Add unamortized premium				<u>138,165</u>
Total long term obligation				<u>\$ 17,766,108</u>

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2017:

	Principal	Interest	Service Fee	Total
2018	\$ 1,660,696	\$ 329,987	\$ 13,180	\$ 2,003,863
2019	1,710,666	280,217	12,065	2,002,948
2020	1,740,684	250,998	10,938	2,002,620
2021	1,765,753	221,229	9,800	1,996,782
2022	1,800,874	187,871	8,678	1,997,423
2023-27	6,440,713	350,814	25,729	6,817,256
2028-32	<u>948,528</u>	<u>19,065</u>	<u>4,766</u>	<u>972,359</u>
Total	<u>\$ 16,067,914</u>	<u>\$ 1,640,181</u>	<u>\$ 85,156</u>	<u>\$ 17,793,251</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, 2017, the depreciation fund had a balance of \$1,607,119.

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, 2017, the debt service fund had a balance of \$923,712.

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT

LEASES PAYABLE

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

1. **Office Equipment Rental Company Lease (Police)** – The City entered into a capital lease agreement for a copier for the police department on January 9, 2012. The term of the lease was for 60 months with monthly payments of \$129. The final payment on the lease was made in fiscal year 2017.
2. **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, 2017 was \$1,144,095.

BONDS AND NOTES PAYABLE

Park Expansion Bond Payable

On April 8, 2008, the City issued \$3,375,000 in General Obligation Public Project Bonds, Series 2008. The proceeds funded the park expansion project. The bonds bear interest at rates ranging from 2.25% - 3.3%. The balance of the bonds at June 30, 2017 was \$255,000.

General Obligation Public Project Bond Anticipation Note, Series 2016

On September 1, 2016 the City opened a bond anticipation note with PNC 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 2017 the City borrowed \$4,388,228 on the note for construction. Upon completion of the project the anticipation note will be paid off with bonds that will be issued by the U.S. Department of Agriculture. The balance of the anticipation note as of June 30, 2017 is \$4,388,228 and the entire balance is included in long-term debt.

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

	Principal	Interest	Total
2018	\$ 329,785	\$ 34,034	\$ 363,819
2019	76,780	27,831	104,611
2020	78,828	25,783	104,611
2021	80,931	23,680	104,611
2022	83,089	21,522	104,611
2023-25	<u>749,682</u>	<u>51,028</u>	<u>800,710</u>
Total	<u>1,399,095</u>	<u>\$ 183,878</u>	<u>\$ 1,582,973</u>
Anticipation Note	<u>4,388,228</u>		
Total	<u>\$ 5,787,323</u>		

CITY OF BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. GOVERNMENTAL ACTIVITIES - LONG-TERM DEBT (CONTINUED)

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

	June 30, 2016	Additions	Deletions	June 30, 2017
Leases payable – copier	\$ 306	\$ -	\$ 306	\$ -
Leases payable – building	1,216,937	-	72,842	1,144,095
Park bonds payable	505,000	-	250,000	255,000
Bond anticipation note	-	4,388,228	-	4,388,228
Net pension liability	7,119,435	1,176,654	-	8,296,089
Compensated absences	<u>701,975</u>	<u>68,952</u>	<u>-</u>	<u>770,927</u>
Total debt outstanding	<u>\$ 9,543,653</u>	<u>\$ 5,633,834</u>	<u>\$ 323,148</u>	<u>\$ 14,854,339</u>
Less current portion of:				
Leases payable				\$ 74,785
Park bonds				<u>255,000</u>
Current portion				<u>329,785</u>
Total long – term obligation				<u>\$ 14,524,554</u>

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, 2017 is not readily available.

In May 2015, the City Council authorized issuance of Educational Facilities Revenue Refunding Bonds of approximately \$6,435,000 for the purpose of assisting Berea College in refunding certain outstanding educational facilities revenue bonds. The amount of bonds outstanding at June 30, 2017 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.

9. TRANSFERS

The following transfers were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ 54,286	\$ -
Menelaus Pike	<u>-</u>	<u>54,286</u>
Total	<u>\$ 54,286</u>	<u>\$ 54,286</u>

The transfers to/from the General Fund were made for the following purposes:

- A transfer to the General Fund was made to close out the Menelaus Pike Fund.

CITY OF BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

10. RETIREMENT PLAN

CERS

The City of Berea is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues 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, 2017, 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 on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% 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 \$1,138,105 for the year ended June 30, 2017, or 100% of the required contribution. The contribution was allocated \$849,923 to the CERS pension fund and \$288,182 to the CERS insurance fund.

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Cost of living adjustments are provided at the discretion of the General Assembly. 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, 2017, the City reported a liability of \$11,301,398 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2016, the City's proportion was .230 percent, which was an increase of .004 percent from its proportion at June 30, 2016 (.226 percent).

For the year ended June 30, 2017, the City recognized pension expense of \$1,608,345. At June 30, 2017, 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	\$ 49,339	\$ -
Changes of assumptions	598,691	-
Net difference between projected and actual earnings on Plan investments	1,062,447	-
Changes in proportion and differences between City contributions and proportionate share of contributions	143,368	-
City contributions subsequent to the measurement date	<u>849,923</u>	<u>-</u>
Total	<u>\$ 2,703,768</u>	<u>\$ -</u>

CITY OF BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

10. RETIREMENT PLAN (CONTINUED)

The \$849,923 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, 2017. 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,

2018	\$ 695,518
2019	473,354
2020	417,986
2021	266,987

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of Plan investment expense, including inflation

Mortality rates were based on the 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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions 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 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 time frame. 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, 2017

10. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent. 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 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 14,083,372
Current discount rate	7.50%	\$ 11,301,398
1% increase	8.50%	\$ 8,916,692

Payable to the Pension Plan – At June 30, 2017, the City reported a payable of \$159,795 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. 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 includible compensation up to \$18,000 and an additional \$6,000 if 50 or older for calendar year 2016. During the fiscal year employees contributed \$86,307 to the 457(b) plan and \$24,750 to the 401(k) plan.

CITY OF BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

11. PROPERTY TAX RATES AND CALENDAR

Property taxes for fiscal year 2017 were levied in November 2016 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	Date Per K.R.S. 134.015
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.

12. 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.

13. 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.

14. 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 2017, however no occupational license fees were foregone during fiscal year 2017.

SUPPLEMENTAL INFORMATION

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 645,000	\$ 645,000	\$ 687,815	\$ 42,815
State assessment property taxes	10,000	10,000	18,185	8,185
In lieu of property tax	22,000	22,000	25,541	3,541
Delinquent property taxes	10,000	10,000	9,983	(17)
Bank deposit taxes	56,678	60,214	60,426	212
Motor vehicle taxes	40,000	40,000	56,423	16,423
	<u>783,678</u>	<u>787,214</u>	<u>858,373</u>	<u>71,159</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	700,000	700,000	964,978	264,978
Employee withholding	5,100,000	5,300,000	6,756,065	1,456,065
Net profits	550,000	550,000	1,514,675	964,675
Individual	30,000	30,000	55,477	25,477
Business	7,500	7,500	13,735	6,235
ABC	6,000	17,000	15,477	(1,523)
Utility franchise fees	1,020,000	1,020,000	1,091,138	71,138
Building permits	62,000	68,000	115,396	47,396
Electric permits	45,000	45,000	52,510	7,510
Street cut permits	200	200	1,825	1,625
	<u>7,520,700</u>	<u>7,737,700</u>	<u>10,581,276</u>	<u>2,843,576</u>
CHARGES FOR SERVICE				
Court costs & fees	24,000	15,000	13,548	(1,452)
Accident reports	2,000	2,000	4,515	2,515
Codes - plat review fee	2,500	2,500	3,852	1,352
Police special services	5,000	10,000	17,047	7,047
Demolition cleanup	100	100	35	(65)
Parks concessions	14,000	14,000	15,562	1,562
Pool concessions	22,000	22,000	28,552	6,552
Swimming pool fees	53,000	53,000	64,929	11,929
Softball fees	200	200	275	75
Miscellaneous	1,200	1,200	1,202	2
	<u>124,000</u>	<u>120,000</u>	<u>149,517</u>	<u>29,517</u>

CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Fingerprint charges	\$ 900	\$ 900	\$ 1,530	\$ 630
Court restitution	100	100	6,483	6,383
Codes violations	1,000	1,000	2,490	1,490
Penalties and interest	15,000	18,000	38,753	20,753
Parking fines	6,500	7,000	7,655	655
	<u>23,500</u>	<u>27,000</u>	<u>56,911</u>	<u>29,911</u>
INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	72,032	2,032
Madison County grants	53,000	53,000	53,000	-
Other grants	1,120,000	565,000	306,895	(258,105)
Volunteer fire state aid	8,250	8,250	11,000	2,750
Police incentive pay	128,000	128,000	149,228	21,228
Fire incentive pay	88,000	88,000	101,377	13,377
	<u>1,467,250</u>	<u>912,250</u>	<u>693,532</u>	<u>(218,718)</u>
OTHER REVENUE				
Rental income	78,175	78,175	84,287	6,112
Interest income	25,700	25,700	45,797	20,097
Insurance proceeds	-	-	3,286	3,286
Miscellaneous	5,000	5,000	26,026	21,026
	<u>108,875</u>	<u>108,875</u>	<u>159,396</u>	<u>50,521</u>
TOTAL REVENUE	<u>\$ 10,028,003</u>	<u>\$ 9,693,039</u>	<u>\$ 12,499,005</u>	<u>\$ 2,805,966</u>

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
General Government				
Personnel	\$ 47,411	\$ 47,412	\$ 14,874	\$ (32,538)
Utilities	124,500	124,200	95,830	(28,370)
Materials and supplies	16,500	16,500	10,683	(5,817)
Services and support	323,700	312,032	300,187	(11,845)
Other expenditures	12,600	12,600	3,601	(8,999)
Administration				
Personnel	235,442	235,443	232,314	(3,129)
Materials and supplies	26,250	26,250	5,852	(20,398)
Services and support	391,600	551,300	473,598	(77,702)
Other expenditures	14,500	14,500	7,465	(7,035)
City Council				
Personnel	56,900	56,900	54,256	(2,644)
Services and support	60,600	60,600	59,447	(1,153)
Other expenditures	362,481	497,481	301,260	(196,221)
Finance Office				
Personnel	315,500	315,500	313,384	(2,116)
Materials and supplies	17,000	17,000	7,497	(9,503)
Services and support	94,500	94,500	85,001	(9,499)
Other expenditures	14,500	11,000	8,758	(2,242)
Total Administration	<u>2,113,984</u>	<u>2,393,218</u>	<u>1,974,007</u>	<u>(419,211)</u>
POLICE				
Personnel	2,386,000	2,386,000	2,320,582	(65,418)
Utilities	18,500	18,500	17,672	(828)
Materials and supplies	159,500	159,500	143,142	(16,358)
Services and support	77,500	77,500	58,280	(19,220)
Other expenditures	69,000	69,000	47,434	(21,566)
Total Police Department	<u>2,710,500</u>	<u>2,710,500</u>	<u>2,587,110</u>	<u>(123,390)</u>
FIRE				
Personnel	1,463,000	1,468,000	1,408,333	(59,667)
Utilities	14,400	14,400	9,715	(4,685)
Materials and supplies	81,500	114,500	90,831	(23,669)
Services and support	80,600	82,600	47,960	(34,640)
Other expenditures	16,500	16,500	4,873	(11,627)
Total Fire Department	<u>1,656,000</u>	<u>1,696,000</u>	<u>1,561,712</u>	<u>(134,288)</u>

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2017

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
PUBLIC WORKS				
Personnel	\$ 1,198,256	\$ 1,198,256	\$ 1,097,562	\$ (100,694)
Utilities	132,250	132,250	115,322	(16,928)
Materials and supplies	343,550	343,550	146,614	(196,936)
Services and support	436,000	436,000	252,827	(183,173)
Other expenditures	<u>52,050</u>	<u>62,550</u>	<u>15,224</u>	<u>(47,326)</u>
Total Public Works	<u>2,162,106</u>	<u>2,172,606</u>	<u>1,627,549</u>	<u>(545,057)</u>
CODES ENFORCEMENT				
Personnel	384,900	384,900	367,054	(17,846)
Materials and supplies	21,500	19,000	11,651	(7,349)
Services and support	23,600	21,100	10,691	(10,409)
Other expenditures	<u>12,000</u>	<u>11,500</u>	<u>8,267</u>	<u>(3,233)</u>
Total Codes Enforcement	<u>442,000</u>	<u>436,500</u>	<u>397,663</u>	<u>(38,837)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	272,750	277,874	254,967	(22,907)
Utilities	93,890	93,890	81,394	(12,496)
Materials and supplies	61,200	61,200	47,877	(13,323)
Services and support	139,800	134,450	93,890	(40,560)
Other expenditures	<u>32,200</u>	<u>32,200</u>	<u>25,206</u>	<u>(6,994)</u>
Pool				
Personnel	82,891	82,891	69,004	(13,887)
Utilities	15,400	15,400	18,144	2,744
Materials and supplies	50,650	50,650	41,017	(9,633)
Services and support	34,500	34,500	21,516	(12,984)
Other expenditures	<u>11,000</u>	<u>11,000</u>	<u>6,349</u>	<u>(4,651)</u>
Intergenerational Center				
Utilities	18,700	18,700	15,394	(3,306)
Services and support	<u>10,000</u>	<u>10,000</u>	<u>6,714</u>	<u>(3,286)</u>
Total Parks and Recreation	<u>822,981</u>	<u>822,755</u>	<u>681,472</u>	<u>(141,283)</u>

**CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 169,427	\$ 169,427	\$ 168,744	\$ (683)
Materials and supplies	13,100	13,100	5,479	(7,621)
Services and support	12,150	12,150	4,208	(7,942)
Other expenditures	<u>4,500</u>	<u>4,500</u>	<u>1,305</u>	<u>(3,195)</u>
Total GIS/Surveying	<u>199,177</u>	<u>199,177</u>	<u>179,736</u>	<u>(19,441)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	75,835	77,935	78,226	291
Materials and supplies	5,150	4,450	2,202	(2,248)
Services and support	12,340	9,840	2,922	(6,918)
Other expenditures	<u>23,400</u>	<u>24,500</u>	<u>7,938</u>	<u>(16,562)</u>
Total Business Development	<u>116,725</u>	<u>116,725</u>	<u>91,288</u>	<u>(25,437)</u>
INFORMATION TECHNOLOGY				
Personnel	71,398	87,357	78,268	(9,089)
Materials and supplies	9,550	9,550	3,218	(6,332)
Services and support	60,500	60,500	58,344	(2,156)
Other expenditures	<u>30,000</u>	<u>30,000</u>	<u>4,852</u>	<u>(25,148)</u>
Total Information Technology	<u>171,448</u>	<u>187,407</u>	<u>144,682</u>	<u>(42,725)</u>
CAPITAL OUTLAY	<u>12,738,200</u>	<u>11,831,310</u>	<u>7,278,377</u>	<u>(4,552,933)</u>
DEBT SERVICE	<u>262,415</u>	<u>262,415</u>	<u>280,982</u>	<u>18,567</u>
TOTAL EXPENDITURES	<u>23,395,536</u>	<u>22,828,613</u>	<u>16,804,578</u>	<u>(6,024,035)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	63,296	63,296
Financing proceeds	8,500,000	8,500,000	4,388,228	(4,111,772)
Transfers in (out)	<u>-</u>	<u>54,209</u>	<u>54,286</u>	<u>77</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>8,500,000</u>	<u>8,554,209</u>	<u>4,505,810</u>	<u>(4,048,399)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (4,867,533)</u>	<u>\$ (4,581,365)</u>	<u>\$ 200,237</u>	<u>\$ 4,781,602</u>

* The City adopts the budget in aggregate for all governmental and proprietary funds. The above numbers represent the detail for the General Fund, which was included as part of the budget ordinance.

**CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON TOURISM FUND
for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
Transient room tax	\$ 130,000	\$ 130,000	\$ 202,144	\$ 72,144
Restaurant tax	<u>920,000</u>	<u>920,000</u>	<u>1,097,135</u>	<u>177,135</u>
	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,299,279</u>	<u>249,279</u>
INTERGOVERNMENTAL				
Grant revenues	<u>15,000</u>	<u>15,000</u>	<u>15,446</u>	<u>446</u>
CHARGES FOR SERVICE				
Workshop fees	<u>100,000</u>	<u>120,000</u>	<u>144,364</u>	<u>24,364</u>
OTHER REVENUE				
Miscellaneous revenue	<u>52,950</u>	<u>52,950</u>	<u>78,054</u>	<u>25,104</u>
TOTAL REVENUE	<u>1,217,950</u>	<u>1,237,950</u>	<u>1,537,143</u>	<u>299,193</u>
TOURISM				
Personnel	422,500	422,500	304,593	(117,907)
Utilities	81,420	81,420	36,606	(44,814)
Materials and supplies	44,200	44,200	10,154	(34,046)
Services and support	432,000	432,000	403,655	(28,345)
Other expenditures	<u>396,500</u>	<u>400,500</u>	<u>364,068</u>	<u>(36,432)</u>
	<u>1,376,620</u>	<u>1,380,620</u>	<u>1,119,076</u>	<u>(261,544)</u>
CAPITAL OUTLAY	<u>160,000</u>	<u>200,000</u>	<u>138,676</u>	<u>(61,324)</u>
DEBT SERVICE	<u>108,000</u>	<u>108,000</u>	<u>104,611</u>	<u>(3,389)</u>
TOTAL EXPENDITURES	<u>1,644,620</u>	<u>1,688,620</u>	<u>1,362,363</u>	<u>(326,257)</u>
OTHER FINANCING SOURCES (USES)				
Financing proceeds	-	-	-	-
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (426,670)</u>	<u>\$ (450,670)</u>	<u>\$ 174,780</u>	<u>\$ 625,450</u>

* The City adopts the budget in aggregate for all governmental and proprietary funds.
The above numbers represent the detail for the Tourism Fund, which was included as part of the budget ordinance.

**CITY OF BEREA, KENTUCKY
 REQUIRED SUPPLEMENTAL SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 Last Four Fiscal Years**

	2017	2016	2015	2014
City's proportion of the net pension liability	0.230%	0.226%	0.223%	0.223%
City's proportionate share of the net pension liability (asset)	\$ 11,301,398	\$ 9,697,588	\$ 7,241,715	\$ 8,187,448
City's covered employee payroll	\$ 5,636,670	\$ 5,394,952	\$ 5,223,674	\$ 5,146,587
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	200.50%	179.75%	138.63%	159.09%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF BEREA, KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Five Fiscal Years**

	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 849,923	\$ 700,074	\$ 687,771	\$ 717,733	\$ 649,499
Contributions relative to contractually required employer contribution	<u>\$ 849,923</u>	<u>\$ 700,074</u>	<u>\$ 687,771</u>	<u>\$ 717,733</u>	<u>\$ 649,499</u>
Contribution deficiency (excess)	<u>\$ -</u>				
City's covered employee payroll	\$ 6,092,638	\$ 5,636,670	\$ 5,394,952	\$ 5,223,674	\$ 5,146,587
Employer contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%	13.74%	12.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

**CITY OF BEREA, KENTUCKY
BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 769,958	\$ 769,958	\$ 795,039	\$ 25,081
Utilities	73,800	73,800	61,560	(12,240)
Materials and supplies	58,800	60,300	35,821	(24,479)
Services and support	414,000	414,000	377,841	(36,159)
Other expenses	44,000	44,000	19,707	(24,293)
	<u>1,360,558</u>	<u>1,362,058</u>	<u>1,289,968</u>	<u>(72,090)</u>
Electric				
Personnel	574,200	574,200	601,243	27,043
Utilities	4,350	4,350	1,752	(2,598)
Materials and supplies	55,300	55,300	40,973	(14,327)
Services and support	11,197,000	11,222,000	9,179,360	(2,042,640)
Other expenses	324,500	329,500	70,955	(258,545)
	<u>12,155,350</u>	<u>12,185,350</u>	<u>9,894,283</u>	<u>(2,291,067)</u>
Water				
Personnel	478,000	498,000	486,043	(11,957)
Utilities	255,700	255,700	238,736	(16,964)
Materials and supplies	157,800	157,800	119,967	(37,833)
Services and support	385,000	404,500	372,061	(32,439)
Other expenses	42,000	42,000	22,642	(19,358)
	<u>1,318,500</u>	<u>1,358,000</u>	<u>1,239,449</u>	<u>(118,551)</u>
Sewer				
Personnel	583,800	583,800	642,878	59,078
Utilities	214,000	214,000	195,045	(18,955)
Materials and supplies	97,600	97,600	74,687	(22,913)
Services and support	399,800	399,800	319,472	(80,328)
Other expenses	36,200	36,200	20,118	(16,082)
	<u>1,331,400</u>	<u>1,331,400</u>	<u>1,252,200</u>	<u>(79,200)</u>
Total Expenses	<u>\$ 16,165,808</u>	<u>\$ 16,236,808</u>	<u>\$ 13,675,900</u>	<u>\$ (2,560,908)</u>

**CITY OF BEREA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2017**

	Municipal Road Aid Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2017 Total	2016 Totals
ASSETS									
Cash and cash equivalents	\$ 590,585	\$ 38,244	\$ -	\$ -	\$ 133,869	\$ 37,899	\$ 56,374	\$ 856,971	\$ 783,086
Investments	-	104,310	-	-	-	-	-	104,310	103,635
Accounts receivable	25,376	-	-	-	-	-	103,203	128,579	24,810
Interest receivable	-	75	-	-	-	-	-	75	75
Other assets	-	-	-	-	-	3,000	-	3,000	7,088
Due from other fund	-	-	-	-	-	-	-	-	2,798
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,798</u>
 Total assets	 <u>\$ 615,961</u>	 <u>\$ 142,629</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 133,869</u>	 <u>\$ 40,899</u>	 <u>\$ 159,577</u>	 <u>\$ 1,092,935</u>	 <u>\$ 921,492</u>
LIABILITIES AND FUND BALANCE									
Liabilities									
Accounts payable	\$ 46,850	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,218	\$ 86,068	\$ 19,832
Accrued payroll	-	-	-	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	16,335	-	16,335	14,785
Due to other fund	-	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities	 46,850	 -	 -	 -	 -	 16,335	 39,218	 102,403	 34,617
 Fund balance	 <u>569,111</u>	 <u>142,629</u>	 <u>-</u>	 <u>-</u>	 <u>133,869</u>	 <u>24,564</u>	 <u>120,359</u>	 <u>990,532</u>	 <u>886,875</u>
 Total liabilities and fund balances	 <u>\$ 615,961</u>	 <u>\$ 142,629</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 133,869</u>	 <u>\$ 40,899</u>	 <u>\$ 159,577</u>	 <u>\$ 1,092,935</u>	 <u>\$ 921,492</u>

CITY OF BERA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2017

	Municipal Road Aid Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2017 Total	2016 Totals
REVENUES									
Intergovernmental revenues	\$ 278,559	\$ -	\$ -	\$ -	\$ 43,097	\$ -	\$ 103,203	\$ 424,859	394,239
Charges for services	-	-	-	-	-	50,957	-	50,957	57,721
Other revenues	409	16,499	32	-	72	21	82	17,115	16,913
	<u>278,968</u>	<u>16,499</u>	<u>32</u>	<u>-</u>	<u>43,169</u>	<u>50,978</u>	<u>103,285</u>	<u>492,931</u>	<u>468,873</u>
Total revenues									
EXPENDITURES									
Current									
General administration	-	5,950	-	-	-	-	-	5,950	2,364
Police department	-	-	-	-	136	-	-	136	1,934
Street department	107,498	-	-	-	-	-	-	107,498	456,065
Tourism	-	-	-	-	-	40,323	-	40,323	64,287
State Contracts	-	-	-	-	-	-	103,203	103,203	120,452
Capital outlay	77,878	-	-	-	-	-	-	77,878	41,810
Debt service	-	-	-	-	-	-	-	-	-
	<u>185,376</u>	<u>5,950</u>	<u>-</u>	<u>-</u>	<u>136</u>	<u>40,323</u>	<u>103,203</u>	<u>334,988</u>	<u>686,912</u>
Total expenditures									
Excess revenues over (under) expenditures before other sources (uses)	93,592	10,549	32	-	43,033	10,655	82	157,943	(218,039)
Other financing sources									
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Transfers from (to) other funds	-	-	(54,286)	-	-	-	-	(54,286)	158,967
	<u>-</u>	<u>-</u>	<u>(54,286)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(54,286)</u>	<u>158,967</u>
Excess revenues and other sources over (under) expenditures	93,592	10,549	(54,254)	-	43,033	10,655	82	103,657	(59,072)
Fund balances, July 1, 2016	475,519	132,080	54,254	-	90,836	13,909	120,277	886,875	945,947
	<u>475,519</u>	<u>132,080</u>	<u>54,254</u>	<u>-</u>	<u>90,836</u>	<u>13,909</u>	<u>120,277</u>	<u>886,875</u>	<u>945,947</u>
FUND BALANCES-									
JUNE 30, 2017	<u>\$ 569,111</u>	<u>\$ 142,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,869</u>	<u>\$ 24,564</u>	<u>\$ 120,359</u>	<u>\$ 990,532</u>	<u>\$ 886,875</u>



**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, 2017. 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, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and 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.

RFH

RFH, PLLC
Lexington, Kentucky
October 21, 2017

CITY OF BERE A KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
Executive Office of the President High Intensity Drug Trafficking Areas Program	95.001	n/a	\$ 12,775
Department of Transportation Highway Planning and Construction (Note 4)	20.205	PO2-625-1500002643	50,862
State and Community Highway Safety (Note 4)	20.600	PT-14-02	<u>1,335</u>
Total Department of Transportation			<u>\$ 52,197</u>
Department of Housing and Urban Development Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii (Note 5)	14.228	15-048	<u>246,510</u>
United States Department of Agriculture Community Facilities Loans and Grants	10.766	n/a	5,144,226
Watershed Protection and Flood Prevention	10.904	n/a	<u>73,381</u>
Total United States Department of Agriculture			<u>\$ 5,217,607</u>
Total expenditures of federal awards			<u>\$ 5,529,089</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 AUDITORS' 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 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, 2017, 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 21, 2017.

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

Report on Internal Control over Compliance

Management of the City of Berea, Kentucky 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 the City of Berea, Kentucky'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 the City of Berea, Kentucky'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 to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

RFH

RFH, PLLC
Lexington, Kentucky
October 21, 2017

CITY OF BEREA, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
 considered to be material weaknesses Yes None reported

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
 considered to be material weaknesses Yes None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in
 accordance with 2 CFR 200.516(a)? Yes No

Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A
 and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE