

CITY OF BEREA
Berea, Kentucky

FINANCIAL STATEMENTS
June 30, 2013

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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, 2013. Please read the following in conjunction with the auditors' report on page 11 and the City's financial statements, which begin to appear on page 13.

OVERVIEW OF THIS ANNUAL REPORT

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

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

GOVERNMENT – WIDE FINANCIAL STATEMENTS

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

Table 1

			2013 Total	2012 Total
	Governmental Activities	Business-type Activities	Primary Government	Primary Government
Current Assets	\$ 8,512,393	\$ 10,417,731	\$ 18,930,124	\$ 17,785,715
Capital Assets	19,230,011	41,763,152	60,993,163	61,179,168
Other Noncurrent Assets	32,957	2,956,489	2,989,446	2,993,633
Total Assets	<u>27,775,361</u>	<u>55,137,372</u>	<u>82,912,733</u>	<u>81,958,516</u>
Long-Term Liabilities	1,610,604	20,226,325	21,836,929	23,797,367
Current Liabilities	764,362	4,004,921	4,769,283	4,916,510
Total Liabilities	<u>2,374,966</u>	<u>24,231,246</u>	<u>26,606,212</u>	<u>28,713,877</u>
Net Position:				
Invested in Capital Assets				
Net of Related Debt	18,019,126	20,250,573	38,269,699	35,949,909
Restricted	599,530	2,214,865	2,814,395	2,580,935
Unrestricted	6,781,739	8,440,688	15,222,427	14,713,795
Total Net Assets	<u>\$ 25,400,395</u>	<u>\$ 30,906,126</u>	<u>\$ 56,306,521</u>	<u>\$ 53,244,639</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the City of Berea exceeded liabilities by \$56,306,521. The City's total assets increased by \$954,217, due mainly to the accumulation of cash in the Utilities which will be used to fund future capital projects. The City's total liabilities decreased by \$2,107,665 as a result of principal payments on the City's bonds and notes. This resulted in an overall increase in net position of \$3,061,882. However, three-quarters of the increase reflects the City's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. Consequently, these assets are not available for future spending. 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 \$2,814,395 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$15,222,427 is unrestricted, which shows an increase of \$508,632 over the 2012 amount.

Table 2

	Governmental Activities	Business-type Activities	2013 Total Primary Government	2012 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 187,757	\$ 16,211,865	\$ 16,399,622	\$ 14,984,298
Operating Grants & Contributions	1,081,672	-	1,081,672	919,093
Capital Grants & Contributions	70,872	497,539	568,411	461,502
General Revenue				
Taxes	1,801,476		1,801,476	1,773,916
License fees	8,036,223		8,036,223	7,867,138
Permits	63,919		63,919	110,401
Investment Earnings	36,383	51,727	88,110	118,536
Other Revenues	149,510	-	149,510	112,352
Total Revenues	<u>11,427,812</u>	<u>16,761,131</u>	<u>28,188,943</u>	<u>26,347,236</u>
<u>Program Expenses</u>				
General Government	1,658,385	-	1,658,385	1,629,539
Public Safety - Police	2,661,311	-	2,661,311	2,480,473
Public Safety - Fire	1,372,178	-	1,372,178	1,301,436
Public Works	1,719,710	-	1,719,710	1,999,706
Codes enforcement	360,433	-	360,433	340,765
Parks and Recreation	871,242	-	871,242	854,159
GIS/Surveying	158,131	-	158,131	153,974
Business Development	79,025	-	79,025	74,591
Tourism	931,028	-	931,028	946,291
State Contracts	296,322	-	296,322	155,663
Interest on Long-term Debt	51,018	-	51,018	75,138
Utilities	-	14,983,399	14,983,399	13,894,257
Total Program Expenses	<u>10,158,783</u>	<u>14,983,399</u>	<u>25,142,182</u>	<u>23,918,160</u>
Gain/(Loss) on Sale of Property	<u>11,621</u>	<u>3,500</u>	<u>15,121</u>	<u>(18,073)</u>
Change in Net Position	<u>\$ 1,280,650</u>	<u>\$ 1,781,232</u>	<u>\$ 3,061,882</u>	<u>\$ 2,411,003</u>

The City's Change in Net Position above includes depreciation expenses that are not cash expenditures of the City. These expenses are never considered as part of the City's budget process for governmental activities. Additionally, 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 net position by \$1,280,650 which is a slightly higher than the prior year's increase of \$1,084,481. This year's increase in net position from governmental activities accounts for 45% of the total growth in the net position of the City as a whole. This results from an overall increase in governmental revenue of \$301,355 (3%) which offsets a \$134,880 (1%) increase in expenses.

Much of the increase in total governmental revenue (54%) is due to an increase in operating and capital grants. State funds for Menelaus Pike, US 25 North and Berea Bypass Phase II projects rose by \$140,659 from the prior year. Increases in transient room tax (\$9,382) and restaurant tax (\$13,605) contributed 8% to the overall increase in governmental revenue.

Occupational license fees on payroll, which makes up nearly half of all governmental revenue, only saw an increase of \$65,983, compared to a \$159,706 increase in the prior year. This makes fiscal year 2013 the slowest growth year for payroll taxes in the last four years.

Business-type activities increased the City's net assets by \$1,781,232 compared to the prior year's increase in net assets of \$1,326,522. Charges for services increase by \$1,462,830 (10%), resulting primarily from electrical rate increases and the adoption of the power cost adjustment which insures the recapture of purchased power costs. Grant revenues increased by \$253,097 (149%) related to the upgrade of the Walnut Meadow Pump Station.

Operating expenses increased \$1,089,142 (8%), 53% of which was due to an increase in the cost of purchased power. Of that decrease, there was a \$120,562 (16%) decrease in interest and related bond amortization due to the advance refunding of the Series 2005 Bonds discussed in the paragraph related to debt.

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 of resulting from the fiscal year's governmental activities.

Table 3

	2013	2012
Revenues		
Taxes	\$ 1,801,476	\$ 1,773,916
Licenses and permits	8,100,142	7,977,539
Charges for Services	187,757	235,263
Fines & Forfeits	25,727	7,582
Intergovernmental	1,152,544	977,049
Other Revenues	<u>160,166</u>	<u>155,108</u>
Total Revenues	<u>11,427,812</u>	<u>11,126,457</u>
Expenditures		
General Government	1,536,123	1,522,041
Public Safety - Police	2,530,843	2,315,947
Public Safety - Fire	1,240,591	1,163,637
Public Works	1,431,897	1,645,590
Codes Enforcement	353,823	333,817
Parks and Recreation	643,764	658,127
GIS/Surveying	134,030	130,846
Business Development	77,849	73,813
Tourism	885,861	912,944
Industrial Development	-	-
State Contracts	296,322	155,663
Capital Outlay	1,071,172	1,219,594
Debt Service	<u>954,409</u>	<u>886,737</u>
Total Expenditures	<u>11,156,684</u>	<u>11,018,756</u>
Excess revenues over (under)		
before other sources (uses)	<u>271,128</u>	<u>107,701</u>
Other Financing Sources (Uses)		
Note proceeds	-	120,000
Proceeds from sale of assets	12,101	18,250
Transfers in (out)	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>12,101</u>	<u>138,250</u>
Net Change in Fund Balance	<u>\$ 283,229</u>	<u>\$ 245,951</u>

Total fund balance for all governmental funds has increased 4% from the prior year.

Expenditures for Public Works decrease by \$213,693 (13%) resulting primarily from the conclusion of reimbursements to the state for the city's portion of Prospect Street construction costs. Personnel expenditures for governmental funds increased by \$420,047 (8%) from the prior year. Personnel expenditures for police services accounted for 52% of that increase. Much of this increase resulted from vacancies in the patrol division in the prior fiscal year and retirement payouts for long-time employees. Expenditures for state contracts increased \$140,655, relative to the increase in revenue from state contracts.

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 table below (Tables 4 & 5).

Table 4
General Fund Revenues
Budget to Actual

	Budget	Actual	Variance
Taxes	\$ 657,500	\$ 759,263	\$ 101,763
Licenses, Permits & Billings	6,248,010	8,100,142	1,852,132
Charges for Services	132,000	140,484	8,484
Fines & Forfeitures	16,400	25,727	9,327
Intergovernmental	1,979,125	405,042	(1,574,083)
Other Revenue	124,550	125,223	673
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	\$ 9,157,585	\$ 9,555,881	\$ 398,296

Table 5
General Fund Expenditures
Budget to Actual

	Budget	Actual	Variance
Administration	\$ 1,674,743	\$ 1,536,123	\$ (138,620)
Police	2,470,205	2,512,072	41,867
Fire	1,370,700	1,240,591	(130,109)
Public Works	1,556,994	1,218,604	(338,390)
Codes Enforcement	401,800	353,823	(47,977)
Parks & Recreation	863,283	643,764	(219,519)
GIS/Surveying	158,598	134,030	(24,568)
Business Development	95,244	77,849	(17,395)
Capital Outlay	3,107,645	729,841	(2,377,804)
Debt Service	848,185	849,738	1,553
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 12,547,397	\$ 9,296,435	\$ (3,250,962)

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 \$398,296 or 4%.

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 \$3,250,962 or 35% below budgeted amounts. The majority of

this difference was based on capital items or projects that were budgeted for but not purchased during the fiscal year.

CAPITAL ASSETS

The City of Berea's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$93,199,092, a 3% increase from the prior year. Major capital asset transactions during the year include:

- Completion of the Indian Fort Trail & Bridge between Harrison Road and Shortline Pike with a total project cost of \$422,525 over a two year period, \$123,621 of which was incurred during fiscal year 2013.
- Completion of the Exit 76 Water Line Loop with a total project cost of \$392,750 over a two year period, \$336,524 of which was incurred during fiscal year 2013.
- Completion of the Walnut Meadow Pump Station Upgrade with a total project cost of \$743,325 over a multi-year period, \$627,107 of which was incurred during fiscal year 2013.
- Upgrade of Shortline Pike between Johnson Road and Beechwood for a total project cost of \$213,485.
- Purchase of a digger truck for use in the electric division of Berea Utilities at a cost of \$197,000.
- Purchase of ten vehicles for a total cost of \$335,609. Vehicles include five police cars, a one-ton pickup for street department use, a pickup truck for fire department use and three pickup trucks for Berea Utilities.
- 2014 Case Backhoe for use by Berea Utilities at a cost of \$87,004.

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

Table 6

			2013 Total Primary Government	2012 Total Primary Government
	Governmental Activities	Business-type Activities		
Land, Buildings & Improvements	\$ 11,781,818	\$ 2,571,496	\$ 14,353,314	\$ 14,132,310
Construction in Progress	610,342	220,590	830,932	1,083,799
Vehicles & Equipment	6,490,856	1,968,685	8,459,541	7,779,732
Infrastructure/Utility Plant	10,508,140	59,047,165	69,555,305	67,351,468
Total Capital Assets	<u>29,391,156</u>	<u>63,807,936</u>	<u>93,199,092</u>	<u>90,347,309</u>
Less Accumulated Depreciation	(10,161,145)	(22,044,784)	(32,205,929)	(29,168,141)
Total Net Capital Assets	<u>\$ 19,230,011</u>	<u>\$ 41,763,152</u>	<u>\$ 60,993,163</u>	<u>\$ 61,179,168</u>

DEBT

The City's long term debt at June 30, 2013, totaled \$24,324,328. The City's debt decreased by \$1,638,009 (6%) during the fiscal year. Table 7 provides a summary of all of the City's outstanding indebtedness.

During the fiscal year, the City issued \$9,520,000 of new bonds to advance refund previously issued bonds. Because of the decreased interest rate on the new bonds, the City's debt service payments will be decreased by \$675,126 over 12 years.

Table 7

	Governmental Activities	Business-type Activities	2013 Total Primary Government	2012 Total Primary Government
Leases	\$ 5,885	\$ -	\$ 5,885	\$ 8,816
Bonds Payable	1,205,000	14,510,000	15,715,000	16,630,000
Loans Payable	-	7,791,981	7,791,981	8,483,560
Compensated Absences	627,192	184,270	811,462	839,961
Total Debt Outstanding	<u>1,838,077</u>	<u>22,486,251</u>	<u>24,324,328</u>	<u>25,962,337</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The budget for fiscal year 2013-14 continues the process of modifying how funds are classified and expenses assigned that was begun last fiscal year with the Springbrook Software system. This year's budget established two new reserves, a General Fund Balance Reserve and a Capital Sinking fund.

The \$2,000,000 Fund Balance Reserves represents approximately two month's operating expenses, excluding the purchase of capital equipment. The Capital Sinking Fund allocates \$50,000 per month for a total of \$600,000. The purpose of this fund is to escrow money to purchase large capital items in the future. The \$600,000 assigned to this fund equal the final debt service payments that were made in the 2013 budget for the 1998 park bond. These new reserve funds are unbudgeted and will require a budget amendment by council before money can be spent. Both are created to strengthen future financial foundation of the City.

One of the biggest challenges for the budget each year is to plan for the unknown. We routinely plan for challenges that are fairly specific but hard to predict in frequency and scope, such as winter storms and the cost of gasoline and utilities. We also try to budget for challenges that are hard to recognize until they appear and negatively impact our cash flow. Our present budget prepares us for more of the unknowns giving the 2014 budget a financial cushion to accommodate financial surprises. In light of Berea's financial history and our projections, the revenue estimates remain at the level set in the prior budget except that the amount of Occupational License Fees on Wages received from our industry, which we have increased slightly. Revenues from our industry are substantial and remain challenged by the world economy.

The Berea Municipal Utilities budget is supported by a stable revenue stream. The 2014 budget does not include any increases in water and sewer rates, but does reflect a 4.5% increase in electric rates passed on by Kentucky Utilities. The budget includes money for day to day operations, debt service, depreciation expense, and necessary capital purchases. It also includes several infrastructure upgrades such as revitalization of parts of the distribution and collection systems, a sub-station conversion study, raw water study, and the Terrill Branch sewer extension.

The 2014 budget provides more potential spending on infrastructure than the previous year. Menelaus Pike, Bratcher Land and the Water Street Drainage project and the second-phase of the Berea By-pass are likely to be awarded this fiscal year. In total, these projects will enhance the transportation infrastructure of our City by \$22,000,000.

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.



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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Berea, Kentucky as of and for the year ended June 30, 2013, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2013, 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 and budgetary comparison information on pages 1–10 and 35–39 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 an opinion on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The proprietary budgetary comparison schedules, and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The proprietary budgetary comparison schedules, and combining and nonmajor fund financial statements 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 proprietary budgetary comparison schedules, and combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated October 7, 2013, on our consideration of the City of Berea, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering City of Berea, Kentucky's internal control over financial reporting and compliance.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
Lexington, Kentucky
October 7, 2013

CITY OF BERE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government			2012
	Governmental	Business-type	Total	Totals
	Activities	Activities		
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,790,808	\$ 1,023,200	\$ 2,814,008	\$ 1,678,795
Investments	5,179,764	6,985,677	12,165,441	12,230,397
Receivables (net) (Note 3)	1,541,888	2,325,191	3,867,079	3,832,960
Other receivable	-	78,058	78,058	33,783
Interest receivable	2,330	3,208	5,538	9,780
Internal balances	(2,397)	2,397	-	-
Total current assets	8,512,393	10,417,731	18,930,124	17,785,715
Noncurrent assets				
Restricted cash and cash equivalents	-	2,214,865	2,214,865	1,998,659
Inventory	-	585,323	585,323	585,914
Capital assets (Note 4)				
Construction in progress	610,342	220,590	830,932	1,083,799
Land and easements	4,237,466	264,242	4,501,708	4,446,227
Land improvements, net	561,677	74,219	635,896	544,651
Buildings and improvements, net	2,900,292	1,764,392	4,664,684	4,916,490
Depreciable infrastructure, net	8,787,370	-	8,787,370	8,440,257
Plant and sewer system, net	-	14,833,532	14,833,532	14,705,445
Plant and electric system, net	-	7,559,032	7,559,032	7,959,825
Plant and water system, net	-	16,020,013	16,020,013	16,117,796
Vehicles and equipment	2,132,864	1,027,132	3,159,996	2,964,678
Other assets	32,957	156,301	189,258	409,060
Total noncurrent assets	19,262,968	44,719,641	63,982,609	64,172,801
Total assets	\$ 27,775,361	\$ 55,137,372	\$ 82,912,733	\$ 81,958,516
LIABILITIES				
Current liabilities				
Accounts payable	\$ 310,600	\$ 1,782,531	\$ 2,093,131	\$ 1,949,810
Accrued payroll	173,067	33,139	206,206	178,602
Accrued taxes	1,018	143,932	144,950	54,835
Accrued interest payable	6,238	6,493	12,731	13,584
Deferred revenue	38,535	-	38,535	-
Customer deposits	-	568,302	568,302	548,224
Compensated absences	7,431	-	7,431	6,485
Current portion of long-term obligations (Notes 6 & 7)	227,473	1,470,524	1,697,997	2,164,970
Total current liabilities	764,362	4,004,921	4,769,283	4,916,510
Noncurrent liabilities				
Compensated absences	627,192	184,270	811,462	839,961
Noncurrent portion of long-term obligations (Notes 6 & 7)	983,412	20,042,055	21,025,467	22,957,406
Total noncurrent liabilities	1,610,604	20,226,325	21,836,929	23,797,367
Total liabilities	2,374,966	24,231,246	26,606,212	28,713,877
NET POSITION				
Net invested in capital assets	18,019,126	20,250,573	38,269,699	35,949,909
Restricted for				
Debt service	-	889,989	889,989	738,663
Depreciation	-	1,324,876	1,324,876	1,259,996
Other purposes	599,530	-	599,530	582,276
Unrestricted	6,781,739	8,440,688	15,222,427	14,713,795
Total net position	25,400,395	30,906,126	56,306,521	53,244,639
Total liabilities and net position	\$ 27,775,361	\$ 55,137,372	\$ 82,912,733	\$ 81,958,516

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

CITY OF BERA, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government			2012 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,658,385	\$ -	\$ -	\$ -	\$ (1,658,385)	\$ -	\$ (1,658,385)	\$ (1,641,707)
Public safety-Police	2,661,311	33,630	209,122	-	(2,418,559)	-	(2,418,559)	(2,188,884)
Public safety-Fire	1,372,178	-	116,465	-	(1,255,713)	-	(1,255,713)	(1,194,340)
Public works	1,719,710	-	429,358	70,872	(1,219,480)	-	(1,219,480)	(1,537,245)
Codes enforcement	360,433	4,370	-	-	(356,063)	-	(356,063)	(332,022)
Parks and recreation	871,242	102,452	15,000	-	(753,790)	-	(753,790)	(709,882)
GIS/Surveying	158,131	32	-	-	(158,099)	-	(158,099)	(153,908)
Business development	79,025	-	-	-	(79,025)	-	(79,025)	(74,591)
Tourism	931,028	47,273	15,405	-	(868,350)	-	(868,350)	(904,464)
State contracts	296,322	-	296,322	-	-	-	-	-
Interest on long-term debt	51,018	-	-	-	(51,018)	-	(51,018)	(75,138)
Total governmental activities	10,158,783	187,757	1,081,672	70,872	(8,818,482)	-	(8,818,482)	(8,812,181)
Business type activities								
Berea Municipal Utilities	14,983,399	16,211,865	-	497,539	-	1,726,005	1,726,005	1,258,324
Total business-type activities	14,983,399	16,211,865	-	497,539	-	1,726,005	1,726,005	1,258,324
Total primary government	\$ 25,142,182	\$16,399,622	\$ 1,081,672	\$ 568,411	(8,818,482)	1,726,005	(7,092,477)	(7,553,857)

General revenues

Taxes:				
Property taxes, levied for general purposes	759,263	-	759,263	760,487
Transient room tax	135,866	-	135,866	126,483
Restaurant tax	906,347	-	906,347	886,946
License fees:				
Franchise	1,079,461	-	1,079,461	1,019,074
Payroll	5,406,957	-	5,406,957	5,340,974
Insurance premiums	802,052	-	802,052	830,344
Occupational	747,753	-	747,753	676,746
Permits:				
Building	32,113	-	32,113	55,698
Electric	30,100	-	30,100	54,703
Other	1,706	-	1,706	590
Investment earnings	36,383	51,727	88,110	118,536
Miscellaneous	149,510	-	149,510	112,352
Total general revenues	10,087,511	51,727	10,139,238	9,982,933
Gain (loss) on disposal of capital assets	11,621	3,500	15,121	(18,073)
Transfers in(out)	-	-	-	-
Change in Net Position	1,280,650	1,781,232	3,061,882	2,411,003
Net position-beginning	24,119,745	29,124,894	53,244,639	50,833,636
NET POSITION-ENDING	\$ 25,400,395	\$ 30,906,126	\$ 56,306,521	\$ 53,244,639

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

CITY OF BERE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
ASSETS				
Cash and cash equivalents	\$ 792,173	\$ 998,635	\$ 1,790,808	\$ 1,357,434
Investments	4,571,227	608,537	5,179,764	5,296,368
Receivables, net	1,267,078	274,810	1,541,888	1,562,011
Interest receivable	2,098	232	2,330	4,260
Due from other funds	3,024	-	3,024	174,465
Total assets	<u>\$ 6,635,600</u>	<u>\$ 1,882,214</u>	<u>\$ 8,517,814</u>	<u>\$ 8,394,538</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 104,943	\$ 205,657	\$ 310,600	\$ 355,730
Accrued payroll and related liabilities	167,815	5,252	173,067	158,418
Accrued taxes	1,018	-	1,018	-
Compensated absences	7,431	-	7,431	6,157
Deferred revenue	-	38,535	38,535	-
Due to other funds	2,397	3,024	5,421	175,720
Total liabilities	<u>283,604</u>	<u>252,468</u>	<u>536,072</u>	<u>696,025</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	599,530	599,530	582,276
Committed	2,608,500	-	2,608,500	238,365
Assigned	3,280,671	1,030,216	4,310,887	5,939,545
Unassigned	462,825	-	462,825	938,327
Total fund balances	<u>6,351,996</u>	<u>1,629,746</u>	<u>7,981,742</u>	<u>7,698,513</u>
Total liabilities and fund balances	<u>\$ 6,635,600</u>	<u>\$ 1,882,214</u>	<u>\$ 8,517,814</u>	<u>\$ 8,394,538</u>

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

Fund balances reported above	\$ 7,981,742	\$ 7,698,513
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,230,011	19,149,769
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(6,238)	(6,698)
Deferred bond costs are amortized over the life of the bond and is not reported in the funds.	32,957	39,549
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,838,077)	(2,761,388)
Net position of governmental activities	<u>\$ 25,400,395</u>	<u>\$ 24,119,745</u>

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

CITY OF BERA, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds	2012 Totals
REVENUES				
Taxes	\$ 759,263	\$ 1,042,213	\$ 1,801,476	\$ 1,773,916
Licenses and permits	8,100,142	-	8,100,142	7,977,539
Charges for services	140,484	47,273	187,757	235,263
Fines and forfeits	25,727	-	25,727	7,582
Intergovernmental	405,042	747,502	1,152,544	977,049
Other revenues	125,223	34,943	160,166	155,108
Total revenues	<u>9,555,881</u>	<u>1,871,931</u>	<u>11,427,812</u>	<u>11,126,457</u>
EXPENDITURES				
Current:				
General administration	1,536,123	-	1,536,123	1,522,041
Public safety-police	2,512,072	18,771	2,530,843	2,315,947
Public safety-fire	1,240,591	-	1,240,591	1,163,637
Public works	1,218,604	213,293	1,431,897	1,645,590
Codes enforcement	353,823	-	353,823	333,817
Parks and recreation	643,764	-	643,764	658,127
GIS/Surveying	134,030	-	134,030	130,846
Business development	77,849	-	77,849	73,813
Tourism	-	885,861	885,861	912,944
State contracts	-	296,322	296,322	155,663
Capital outlay	729,841	341,331	1,071,172	1,219,594
Debt service	849,738	104,671	954,409	886,737
Total expenditures	<u>9,296,435</u>	<u>1,860,249</u>	<u>11,156,684</u>	<u>11,018,756</u>
Excess (deficiency) of revenues over expenditures	<u>259,446</u>	<u>11,682</u>	<u>271,128</u>	<u>107,701</u>
OTHER FINANCING SOURCES (USES)				
Note proceeds	-	-	-	120,000
Proceeds from sale of assets	1	12,100	12,101	18,250
Transfers in (out)	61,516	(61,516)	-	-
Total other financing sources and uses	<u>61,517</u>	<u>(49,416)</u>	<u>12,101</u>	<u>138,250</u>
Net change in fund balances	320,963	(37,734)	283,229	245,951
Fund balances-beginning	<u>6,031,033</u>	<u>1,667,480</u>	<u>7,698,513</u>	<u>7,452,562</u>
Fund balances-ending	<u>\$ 6,351,996</u>	<u>\$ 1,629,746</u>	<u>\$ 7,981,742</u>	<u>\$ 7,698,513</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 283,229	\$ 245,951
add: capital outlay expenditures capitalized			1,071,172	1,219,594
add: debt service expenditures			954,409	886,737
less: proceeds from sale of assets			(12,101)	(18,250)
gain (loss) on disposal of capital assets			11,621	(18,073)
less: amortization of deferred bond cost			(6,593)	-
add: reclassification of deferred bond cost				39,549
change in long term compensated absences			20,381	(133,812)
less: note proceeds			-	(120,000)
less: depreciation on governmental activities assets			(990,450)	(942,077)
less: interest on long term debt			(51,018)	(75,138)
Change in net position Governmental Activities			<u>\$ 1,280,650</u>	<u>\$ 1,084,481</u>

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

CITY OF BERE, KENTUCKY
STATEMENT OF NET POSITION
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
June 30, 2013

	Business Type Activities	
	Utilities	
	2013	2012 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,023,200	\$ 321,361
Investments	6,985,677	6,934,029
Receivables (net)	2,325,191	2,270,949
Other receivables	78,058	33,783
Interest receivable	3,208	5,520
Due from (to) other funds	<u>2,397</u>	<u>1,255</u>
Total current assets	<u>10,417,731</u>	<u>9,566,897</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,214,865	1,998,659
Inventory	585,323	585,914
Capital assets		
Construction in progress	220,590	396,840
Land and easements	264,242	262,284
Land improvements	76,207	-
Buildings and improvements	2,231,047	2,215,577
Plant and electric equipment	11,173,545	11,070,808
Plant and water equipment	19,065,122	18,555,042
Plant and sewer equipment	28,808,498	27,894,080
Vehicles and equipment	1,968,685	1,602,745
Less accumulated depreciation	(22,044,784)	(19,967,977)
Other assets	<u>156,301</u>	<u>369,511</u>
Total noncurrent assets	<u>44,719,641</u>	<u>44,983,483</u>
Total assets	<u>\$ 55,137,372</u>	<u>\$ 54,550,380</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,782,531	\$ 1,594,080
Accrued payroll and related liabilities	33,139	20,184
Accrued taxes	143,932	54,835
Accrued interest payable	6,493	6,886
Customer deposits	568,302	548,224
Accrued leave	-	328
Bonds, notes, and loans payable	<u>1,470,524</u>	<u>1,361,579</u>
Total current liabilities	<u>4,004,921</u>	<u>3,586,116</u>
Noncurrent liabilities		
Compensated absences	184,270	192,389
Bonds, notes, and loans payable	<u>20,042,055</u>	<u>21,646,981</u>
Total noncurrent liabilities	<u>20,226,325</u>	<u>21,839,370</u>
Total liabilities	<u>24,231,246</u>	<u>25,425,486</u>
NET POSITION		
Net invested in capital assets	20,250,573	19,020,839
Restricted for debt service	889,989	738,663
Restricted for depreciation reserve	1,324,876	1,259,996
Unrestricted	<u>8,440,688</u>	<u>8,105,396</u>
Total net position	<u>30,906,126</u>	<u>29,124,894</u>
Total liabilities and net position	<u>\$ 55,137,372</u>	<u>\$ 54,550,380</u>

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

CITY OF BERA, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Business Type Activities	
	Utilities	
	2013	2012 Totals
Operating revenues		
Electric service	\$ 10,179,941	\$ 9,008,590
Water service	3,031,325	2,977,878
Sewer service	2,410,306	2,424,059
Other revenues	590,293	402,226
Total operating revenues	16,211,865	14,812,753
Operating expenses		
Administration	1,026,294	979,144
Electric	8,947,146	8,075,545
Water	1,171,272	1,145,129
Sewer	1,108,250	929,962
Depreciation	2,101,285	2,020,395
Total operating expenses	14,354,247	13,150,175
Operating income (loss)	1,857,618	1,662,578
Nonoperating revenues (expenses)		
Interest and investment revenue	51,727	68,198
Interest expense	(550,343)	(721,240)
Amortization	(78,809)	(28,474)
Gain on sale of capital assets	3,500	4,926
Total nonoperating revenue (expense)	(573,925)	(676,590)
Income before capital contributions and transfers	1,283,693	985,988
Capital contributions		
Electric, water and sewer connection fees	74,671	110,763
Developer contributions	-	60,000
Grant revenues	422,868	169,771
Transfers in (out)	-	-
Change in net position	1,781,232	1,326,522
Total net position-beginning	29,124,894	27,798,372
TOTAL NET POSITION-ENDING	\$ 30,906,126	\$ 29,124,894

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

CITY OF BERE A, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2013

	Business Type Activities	
	Utilities	
	2013	2012 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 16,073,580	\$ 14,586,822
Payments to suppliers	(10,199,704)	(9,329,215)
Payments for employee services and benefits	(2,004,695)	(2,001,483)
Net cash provided by operating activities	<u>3,869,181</u>	<u>3,256,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	646,482	103,028
Proceeds from issuance of refunding bonds	9,520,000	-
Payment of advance refunding	(9,520,000)	-
Principal paid on capital debt	(1,361,579)	(1,331,898)
Purchases of capital assets	(631,216)	(923,722)
Purchases of construction in progress	(1,056,477)	(176,427)
Proceeds from sale of capital assets	-	4,926
Interest paid on capital debt	(550,736)	(720,437)
Net cash (used) by capital and related financing activities	<u>(2,953,526)</u>	<u>(3,044,530)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity (net)	(51,649)	(60,133)
Interest and dividends	<u>54,039</u>	<u>69,308</u>
Net cash provided by investing activities	<u>2,390</u>	<u>9,175</u>
Net increase (decrease) in cash and cash equivalents	918,045	220,769
Balances-beginning of the year	<u>2,320,020</u>	<u>2,099,251</u>
BALANCES-END OF THE YEAR	<u>\$ 3,238,065</u>	<u>\$ 2,320,020</u>
Reconciliation of operating income (loss) to net cash		
provided (used) by operating activities:		
Operating income (loss)	\$ 1,857,618	\$ 1,662,578
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Depreciation expense	2,101,285	2,020,395
Change in assets and liabilities		
Receivables, net	(247,460)	(242,779)
Inventory	591	4,099
Due to/from other funds	(1,142)	(69,634)
Accounts payable	44,606	(91,656)
Accrued vacation, sick, & holiday	(8,447)	(41,792)
Accrued taxes	12,955	(7,567)
Other liabilities	89,097	7,518
Customer deposits	<u>20,078</u>	<u>14,962</u>
Net cash provided by operating activities	<u>\$ 3,869,181</u>	<u>\$ 3,256,124</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Payables for capital items, net	<u>\$ 143,845</u>	<u>\$ 28,866</u>
Developer contributions	<u>\$ -</u>	<u>\$ 60,000</u>
Amortization expense	<u>\$ 78,809</u>	<u>\$ 28,474</u>
Non-cash gain on disposal of capital assets	<u>\$ 3,500</u>	<u>\$ -</u>

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

CITY OF BEREА, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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

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

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

US 25 North - The US 25 North Fund is used to account for 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.

Capital Projects Fund - The Capital Projects Fund is used to account for the acquisition or construction of capital assets. During 2013, the fund was closed and moved to the general fund.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 financials resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred. 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 BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 are reported at cost which approximates fair value. Investments of the City consist of certificates of deposits. 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, and capital contributions.

H. 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.

I. 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 BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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.

K. 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.

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.

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 Committee may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balances, continued

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Law enforcement	\$ -	\$ 27,949	\$ 27,949
Road surface repairs	-	571,581	571,581
Committed:			
Capital additions	8,500	-	8,500
Capital projects reserve	600,000	-	600,000
Fund balance reserve	2,000,000	-	2,000,000
Assigned:			
Capital additions	2,904,000	-	2,904,000
Debt service	-	-	-
Other purposes	376,671	1,030,216	1,406,887
Unassigned	<u>462,825</u>	<u>-</u>	<u>462,825</u>
Total fund balances	<u>\$ 6,351,996</u>	<u>\$ 1,629,746</u>	<u>\$ 7,981,742</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 7, 2013, 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, 2013, 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.

Deferred revenues represent revenues received but unearned.

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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED)

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 substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$17,194,314, and the bank balances totaled \$17,428,973. At June 30, 2013, \$17,643,814 of collateral was pledged to the City 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, 2013, consist entirely of certificates of deposit with maturities of one year or less.

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 <u>Fund</u>	Nonmajor <u>Funds</u>	Governmental <u>Funds Total</u>
Governmental Funds:			
Taxes	\$ 67,949	\$ 190,485	\$ 258,434
Licenses, permits, billings	1,212,515	-	1,212,515
Charges for service	-	-	-
Intergovernmental	18,702	84,325	103,027
Other	<u>12,912</u>	<u>-</u>	<u>12,912</u>
Gross receivables	1,312,078	274,810	1,586,888
Less: allowance for uncollectible	<u>(45,000)</u>	<u>-</u>	<u>(45,000)</u>
Net receivables	<u>\$ 1,267,078</u>	<u>\$ 274,810</u>	<u>\$ 1,541,888</u>
Business Type Activities:	<u>Total</u>		
Customer	\$ 2,365,191		
Less: allowance for uncollectible	<u>(40,000)</u>		
Net receivables	<u>\$ 2,325,191</u>		

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

4. CAPITAL ASSETS

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

	July 1, 2012	Additions	Deductions	June 30, 2013
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,183,943	\$ 54,003	\$ (480)	\$ 4,237,466
Construction in progress	686,959	345,908	(422,525)	610,342
Totals	<u>4,870,902</u>	<u>399,911</u>	<u>(423,005)</u>	<u>4,847,808</u>
Capital assets that are depreciated:				
Buildings and improvements	6,793,176	23,699	-	6,816,875
Land improvements	677,330	50,147	-	727,477
Vehicles	3,890,721	264,430	(29,470)	4,125,681
Equipment	2,286,266	78,909	-	2,365,175
Totals	13,647,493	417,185	(29,470)	14,035,208
Infrastructure assets	9,831,538	676,602	-	10,508,140
Total depreciable assets	<u>23,479,031</u>	<u>1,093,787</u>	<u>(29,470)</u>	<u>24,543,348</u>
Less accumulated depreciation:				
Buildings and improvements	3,690,534	226,049	-	3,916,583
Land improvements	132,678	33,122	-	165,800
Vehicles	2,483,232	245,423	(29,470)	2,699,185
Equipment	1,502,440	156,367	-	1,658,807
Infrastructure assets	1,391,281	329,489	-	1,720,770
Totals	<u>9,200,165</u>	<u>990,450</u>	<u>(29,470)</u>	<u>10,161,145</u>
Depreciable capital assets, net	<u>14,278,866</u>	<u>103,337</u>	<u>-</u>	<u>14,382,203</u>
Total capital assets, net	<u>\$ 19,149,768</u>	<u>\$ 503,248</u>	<u>\$ (423,005)</u>	<u>\$ 19,230,011</u>
Business-Type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 262,284	\$ 1,958	\$ -	\$ 264,242
Construction in progress	396,840	1,056,479	(1,232,729)	220,590
Totals	<u>659,124</u>	<u>1,058,437</u>	<u>(1,232,729)</u>	<u>484,832</u>
Capital assets that are depreciated:				
Land improvements	-	76,207	-	76,207
Buildings and improvements	2,215,577	15,470	-	2,231,047
Electric system	11,070,808	102,737	-	11,173,545
Water system	18,555,042	510,080	-	19,065,122
Plant and sewer system	27,894,080	914,418	-	28,808,498
Vehicle and equipment	1,602,745	392,491	(26,550)	1,968,685
Totals	61,338,252	2,011,403	(26,550)	63,323,104
Less accumulated depreciation	<u>19,967,977</u>	<u>2,101,285</u>	<u>24,477</u>	<u>22,044,784</u>
Depreciable capital assets, net	<u>41,370,275</u>	<u>(89,882)</u>	<u>(2,073)</u>	<u>41,278,320</u>
Total capital assets, net	<u>\$ 42,029,399</u>	<u>\$ 968,555</u>	<u>\$ (1,234,802)</u>	<u>\$ 41,763,152</u>

Depreciation Expense was charged to the Governmental functions as follows:

General government	\$ 118,706
Police	138,388
Fire	116,890
Public works	321,318
Parks and recreation	228,455
GIS/Surveying	22,208
Tourism	44,485
Total Depreciation Expense	<u>\$ 990,450</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

5. CONSTRUCTION IN PROGRESS

The City is in progress on the following projects:

	June 30, 2013
Business-Type Activities	
Tank Rehab	\$ 1,314
Lagoon Expansion	27,230
Tank Telemetry	5,419
Terrill Branch Extension	107,901
Lewis Street Substation Conversion	8,685
Reservoir - Raw Water Source Study	<u>70,041</u>
Total construction in progress	<u>\$ 220,590</u>
Governmental Activities	
Storm Water Plan	\$ 74,097
Bratcher Lane	173,541
Shared Use Path – Mayde Connector	3,825
Water Street Drainage	38,307
Wayfinding Project	39,735
Cabin Porch	5,503
300 Chestnut Street Renovation	5,024
Software Implementation	252,463
Stadium Renovation	<u>17,847</u>
Total construction in progress	<u>\$ 610,342</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 between 3-4.375%, with the first interest payment due January 1, 2007 and the first principal payment due January 1, 2011. The bonds mature on January 1, 2025. The Series 2005-B Bonds matured January 1, 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.

On July 1, 2004, the City of Berea entered into a loan assistance agreement with the Kentucky Infrastructure Authority (KIA) for a federally assisted Wastewater Revolving Loan Fund Program Fund A loan not to exceed \$5,000,000 for the improvement of the wastewater system. As of June 30, 2013, the City had a balance of \$3,604,944 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 with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. The loan is not to exceed \$5,000,000. As of June 30, 2012 the City had a balance of \$4,658,616 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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

BONDS AND NOTES PAYABLE, continued

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, 2013, were \$8,865,000. The Series 2013 Bonds bear interest between 2-3%, with the first interest payment due July 1, 2013, and the first principal payment due January 1, 2014. The bonds mature on January 1, 2025.

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

	June 30, 2012	Additions	Deletions	June 30, 2013
Revenue bonds payable	\$ 14,745,000	\$ 9,520,000	\$ 9,755,000	\$ 14,510,000
Notes payable	8,263,560	-	471,579	7,791,981
Compensated absences	<u>192,389</u>	<u>-</u>	<u>8,119</u>	<u>184,270</u>
Total debt outstanding	<u>\$ 23,200,949</u>	<u>\$ 9,520,000</u>	<u>\$ 10,234,698</u>	<u>\$ 22,486,251</u>
Less current portion of:				
Revenue bonds				\$ 1,060,000
Notes payable				<u>476,307</u>
Current portion				<u>1,536,307</u>
Less unamortized premium and defeasance				<u>723,618</u>
Total long term obligation				<u>\$ 20,226,326</u>

Current portion of revenue bonds has been reduced on the financial statements by the current portion of unamortized premium and defeasance of \$17,271 and \$(83,054), respectively.

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2013:

	Principal	Interest	Service Fee	Total
2014	\$ 1,536,307	\$ 293,420	\$ 17,531	\$ 1,847,258
2015	1,521,082	469,301	16,460	2,006,843
2016	1,565,904	424,378	15,377	2,005,659
2017	1,610,775	378,007	14,284	2,003,066
2018	1,660,695	329,987	13,180	2,003,862
2019-23	8,854,021	1,090,889	48,972	9,993,882
2024-28	4,872,306	350,814	25,728	5,248,848
2029-31	<u>680,891</u>	<u>10,246</u>	<u>2,563</u>	<u>693,700</u>
Total	<u>\$ 22,301,981</u>	<u>\$ 3,347,042</u>	<u>\$ 154,095</u>	<u>\$ 25,803,118</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

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, 2013, the depreciation fund had a balance of \$1,324,876

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, 2013, the debt service fund had a balance of \$765,541.

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 (Tourism)-** The City entered into a capital lease for a copier for the tourism department on September 25, 2008. The term of the lease is 60 months with monthly payments of \$153. The outstanding balance due is \$2,298 at June 30, 2013 to be paid out October 2013.

June 30,

2014

\$ 920

2. **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 is for 60 months with monthly payments of \$129. The outstanding balance is \$6,518 at June 30, 2013 to be paid out January 2017.

June 30,

2014

\$ 1,553

2015

1,553

2016

1,553

2017

306

Total lease payable

\$ 4,965

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

7. GOVERNMENTAL ACTIVITIES - LONG TERM DEBT (CONTINUED)

BONDS AND NOTES PAYABLE

Park Bond Payable

In 1992 the City issued debt for \$2,600,000 to provide for park improvements. On February 2, 1999, the City issued \$2,435,000 in Series 1999 Bonds to advance refund \$2,125,000 of the outstanding 1992 debt. The net proceeds of \$2,388,350 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the debt service account and escrow account. The debt service deposit was \$11,635. The escrow balance of \$2,376,715 was used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series bonds. As a result, the 1992 Series bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt. The City advance refunded the 1992 Series bonds to reduce its total debt service payments by \$171,095 and to obtain an economic gain of \$152,265. The 1999 Bonds were paid off during fiscal year 2013.

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%.

Industrial Park Note Payable

During the year, the City of Berea renewed its note payable with Peoples Bank and Trust Company of Madison County that was originally set to mature June 4, 2012. The renewed note accrues interest at 3.5%. The note is payable in one payment of all outstanding principal plus all accrued unpaid interest on June 4, 2013. The City makes regular quarterly payments of all accrued unpaid interest. The note was paid off during fiscal year 2013.

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

	Principal	Interest	Total
2014	\$ 227,474	\$ 34,168	\$ 261,642
2015	236,553	27,380	263,933
2016	241,553	20,135	261,688
2017	<u>505,305</u>	<u>16,623</u>	<u>521,928</u>
Total	<u>\$ 1,210,885</u>	<u>\$ 98,306</u>	<u>\$ 1,309,191</u>

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

	June 30, 2012	Additions	Deletions	June 30, 2013
Leases payable	\$ 8,816	\$ -	\$ 2,931	\$ 5,885
Park bonds payable	1,885,000	-	680,000	1,205,000
Note payable	220,000	-	220,000	-
Compensated absences	<u>647,572</u>	<u>-</u>	<u>20,380</u>	<u>627,192</u>
Total debt outstanding	<u>\$ 2,761,388</u>	<u>\$ -</u>	<u>\$ 923,311</u>	<u>\$ 1,838,077</u>
Less current portion of:				
Leases payable				\$ 2,473
Park bonds				<u>225,000</u>
Current portion				<u>227,473</u>
Total long term obligation				<u>\$ 1,610,604</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

8. CONDUIT DEBT

In December 2010, 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, 2013 is not readily available.

The City has no liability for the Industrial Building Revenue Bonds 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	\$ 61,516	\$ -
Menelaus Pike Fund	13,979	-
Capital Projects Fund	-	61,241
Prospect Street Upgrade Fund	<u>-</u>	<u>14,254</u>
Total	<u>\$ 75,495</u>	<u>\$ 75,495</u>

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

- A transfer to the Menelaus Pike Fund was made to cover expenses prior to reimbursement from the state.
- A transfer from the Capital Projects Fund and Prospect Street Upgrade Fund to close each fund and transfer remaining balances to the General Fund.

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 Statue 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS

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

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

10. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2013, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2013, participating employers contributed 19.55% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 1,277,000	100%
2012	\$ 1,206,400	100%
2011	\$ 1,075,700	100%

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 50 participants in the 457(b) plan and 12 participants in the 401(k) plan. Employees can contribute 100% of includible compensation up to \$17,500 and an additional \$5,500 if 50 or older for calendar year 2013. During the fiscal year employees contributed \$134,703 to the 457(b) plan and \$28,650 to the 401(k) plan.

11. PROPERTY TAX RATES AND CALENDAR

Property taxes for fiscal year 2013 were levied in November 2012 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 9.9 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. PRIOR YEAR RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements to conform with the 2013 financial statement presentation.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

13. RISK MANAGEMENT

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

14. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision - usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013, (that is, for years ended June 30, 2014, or later). The City is currently evaluating the effects of this statement on its financial statements. The Kentucky League of Cities (KLC) prepared estimates of the financial statement impact for all cities participating in CERS. KLC estimated that the City of Berea's unfunded liability would be approximately \$11,000,000 based on the 2011 actuarial analysis. The actual liability for June 30, 2014, could be considerably different due to changes in system assumptions and liabilities.

Owsley Fork Dam Rehabilitation Project

Red Lick Multiple Purpose Structure #1 (Owsley Fork Dam) had its dam hazard classification increased to high due to downstream development. Consequently the structure is considered non-compliant with state and federal dam safety laws. Extensive upgrades will be required to meet minimum safety laws. The City of Berea is responsible for maintaining the Owsley Fork Dam's structure in accordance with state and federal laws. The project is expected to take between 3 and 5 years and cost between \$5.8 and \$9.6 million. It is anticipated that federal grant funding will cover much of the expected cost.

SUPPLEMENTAL INFORMATION

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 540,000	\$ 540,000	\$ 605,086	\$ 65,086
State assessment property taxes	8,600	8,600	7,023	(1,577)
In lieu of property tax	9,300	9,300	9,300	-
Delinquent property taxes	6,000	6,000	34,039	28,039
Bank deposit taxes	58,600	58,600	58,266	(334)
Motor vehicle taxes	<u>35,000</u>	<u>35,000</u>	<u>45,549</u>	<u>10,549</u>
	<u>657,500</u>	<u>657,500</u>	<u>759,263</u>	<u>101,763</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	600,000	600,000	802,052	202,052
Employee withholding	4,400,000	4,400,000	5,406,957	1,006,957
Net profits	250,000	250,000	705,959	455,959
Individual	15,000	15,000	23,464	8,464
Business	5,000	5,000	18,330	13,330
Utility franchise fees	900,000	900,000	1,079,461	179,461
Building permits	42,000	42,000	32,113	(9,887)
Electric permits	35,000	35,000	30,100	(4,900)
Burning permits	10	10	-	(10)
Street cut permits	<u>1,000</u>	<u>1,000</u>	<u>1,706</u>	<u>706</u>
	<u>6,248,010</u>	<u>6,248,010</u>	<u>8,100,142</u>	<u>1,852,132</u>
CHARGES FOR SERVICE				
Court costs & fees	16,500	16,500	27,045	10,545
Accident reports	1,800	1,800	2,500	700
Codes - plat review fee	5,000	5,000	3,320	(1,680)
GIS mapping fees	100	100	32	(68)
Police special services	3,600	3,600	4,085	485
Demolition cleanup	2,000	2,000	1,050	(950)
Parks concessions	19,000	19,000	17,375	(1,625)
Pool concessions	25,000	25,000	24,318	(682)
Swimming pool fees	57,000	57,000	59,747	2,747
Softball fees	-	-	-	-
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>1,012</u>	<u>(988)</u>
	<u>132,000</u>	<u>132,000</u>	<u>140,484</u>	<u>8,484</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Fingerprint charges	\$ 800	\$ 800	\$ 1,055	\$ 255
Court restitution	400	400	575	175
Codes violations	300	300	3,702	3,402
Penalties and interest	3,200	3,200	10,292	7,092
Parking fines	<u>11,700</u>	<u>11,700</u>	<u>10,103</u>	<u>(1,597)</u>
	<u>16,400</u>	<u>16,400</u>	<u>25,727</u>	<u>9,327</u>
INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	72,655	2,655
Madison County grants	56,125	56,125	53,000	(3,125)
Other grants	1,692,000	1,692,000	96,419	(1,595,581)
Police incentive pay	95,000	95,000	112,753	17,753
Fire incentive pay	<u>66,000</u>	<u>66,000</u>	<u>70,215</u>	<u>4,215</u>
	<u>1,979,125</u>	<u>1,979,125</u>	<u>405,042</u>	<u>(1,574,083)</u>
OTHER REVENUE				
Rental income	79,850	79,850	78,995	(855)
Interest income	35,500	35,500	30,280	(5,220)
Insurance proceeds	-	-	9,388	9,388
Miscellaneous	<u>9,200</u>	<u>9,200</u>	<u>6,560</u>	<u>(2,640)</u>
	<u>124,550</u>	<u>124,550</u>	<u>125,223</u>	<u>673</u>
TOTAL REVENUE	<u>\$ 9,157,585</u>	<u>\$ 9,157,585</u>	<u>\$ 9,555,881</u>	<u>\$ 398,296</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
General Government				
Personnel	\$ 46,252	\$ 46,252	\$ 45,079	\$ (1,173)
Utilities	112,200	119,950	106,420	(13,530)
Materials and supplies	17,000	17,700	14,697	(3,003)
Services and support	425,000	441,414	392,096	(49,318)
Other expenditures	10,000	10,003	2,054	(7,949)
Administration				
Personnel	263,191	276,244	289,375	13,131
Materials and supplies	20,300	20,300	17,706	(2,594)
Services and support	33,100	35,100	42,354	7,254
Other expenditures	5,700	5,700	7,238	1,538
City Council				
Personnel	56,840	56,840	54,256	(2,584)
Services and support	34,800	34,800	31,698	(3,102)
Other expenditures	225,297	225,340	181,484	(43,856)
Finance Office				
Personnel	284,500	284,500	267,031	(17,469)
Materials and supplies	16,600	16,600	4,978	(11,622)
Services and support	70,000	75,500	74,754	(746)
Other expenditures	8,500	8,500	4,903	(3,597)
Total Administration	<u>1,629,280</u>	<u>1,674,743</u>	<u>1,536,123</u>	<u>(138,620)</u>
POLICE				
Personnel	2,150,200	2,150,200	2,191,667	41,467
Utilities	11,050	11,050	11,613	563
Materials and supplies	166,600	193,600	199,513	5,913
Services and support	79,700	79,700	81,562	1,862
Other expenditures	<u>35,655</u>	<u>35,655</u>	<u>27,717</u>	<u>(7,938)</u>
Total Police Department	<u>2,443,205</u>	<u>2,470,205</u>	<u>2,512,072</u>	<u>41,867</u>
FIRE				
Personnel	1,170,600	1,170,600	1,155,713	(14,887)
Utilities	13,800	13,800	9,633	(4,167)
Materials and supplies	112,500	112,500	36,886	(75,614)
Services and support	62,800	62,800	31,067	(31,733)
Other expenditures	<u>11,000</u>	<u>11,000</u>	<u>7,292</u>	<u>(3,708)</u>
Total Fire Department	<u>1,370,700</u>	<u>1,370,700</u>	<u>1,240,591</u>	<u>(130,109)</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
STREETS				
Personnel	\$ 787,244	\$ 787,244	\$ 728,725	\$ (58,519)
Utilities	118,550	118,550	111,533	(7,017)
Materials and supplies	330,000	330,000	189,577	(140,423)
Services and support	265,200	265,200	163,178	(102,022)
Other expenditures	<u>56,000</u>	<u>56,000</u>	<u>25,591</u>	<u>(30,409)</u>
Total Street Department	<u>1,556,994</u>	<u>1,556,994</u>	<u>1,218,604</u>	<u>(338,390)</u>
CODES ENFORCEMENT				
Personnel	278,200	278,200	264,655	(13,545)
Materials and supplies	26,000	23,700	14,905	(8,795)
Services and support	93,400	91,100	66,991	(24,109)
Other expenditures	<u>8,300</u>	<u>8,800</u>	<u>7,272</u>	<u>(1,528)</u>
Total Codes Enforcement	<u>405,900</u>	<u>401,800</u>	<u>353,823</u>	<u>(47,977)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	274,498	274,498	242,420	(32,078)
Utilities	105,570	105,570	97,372	(8,198)
Materials and supplies	92,200	92,200	43,179	(49,021)
Services and support	65,600	65,600	42,316	(23,284)
Other expenditures	50,615	50,615	23,399	(27,216)
Pool				
Personnel	93,800	93,800	75,030	(18,770)
Utilities	10,400	10,400	15,921	5,521
Materials and supplies	76,650	76,650	43,306	(33,344)
Services and support	43,550	43,550	28,538	(15,012)
Other expenditures	11,200	11,200	9,236	(1,964)
Intergenerational Center				
Utilities	18,500	18,500	15,363	(3,137)
Services and support	<u>20,700</u>	<u>20,700</u>	<u>7,684</u>	<u>(13,016)</u>
Total Parks and Recreation	<u>863,283</u>	<u>863,283</u>	<u>643,764</u>	<u>(219,519)</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 120,398	\$ 120,398	\$ 123,173	\$ 2,775
Materials and supplies	15,500	15,500	4,284	(11,216)
Services and support	17,500	17,500	5,641	(11,859)
Other expenditures	<u>5,200</u>	<u>5,200</u>	<u>932</u>	<u>(4,268)</u>
Total GIS/Surveying	<u>158,598</u>	<u>158,598</u>	<u>134,030</u>	<u>(24,568)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	72,744	72,744	71,513	(1,231)
Materials and supplies	6,000	6,000	2,110	(3,890)
Services and support	8,000	8,000	2,036	(5,964)
Other expenditures	<u>8,500</u>	<u>8,500</u>	<u>2,190</u>	<u>(6,310)</u>
Total Business Development	<u>95,244</u>	<u>95,244</u>	<u>77,849</u>	<u>(17,395)</u>
CAPITAL OUTLAY	<u>3,359,145</u>	<u>3,107,645</u>	<u>729,841</u>	<u>(2,377,804)</u>
DEBT SERVICE	<u>728,185</u>	<u>848,185</u>	<u>849,738</u>	<u>1,553</u>
TOTAL EXPENDITURES	<u>\$ 12,610,534</u>	<u>\$ 12,547,397</u>	<u>\$ 9,296,435</u>	<u>\$ (3,250,962)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	1,000	1	(999)
Transfers in (out)	<u>(901,363)</u>	<u>(901,363)</u>	<u>61,516</u>	<u>962,879</u>
	<u>(900,363)</u>	<u>(900,363)</u>	<u>61,517</u>	<u>961,880</u>
NET CHANGE IN FUND BALANCE	<u>\$ (4,353,312)</u>	<u>\$ (4,290,175)</u>	<u>\$ 320,963</u>	<u>\$ 4,611,138</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 BERE, KENTUCKY
BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2013

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 617,702	\$ 625,702	\$ 612,439	\$ (13,263)
Utilities	74,800	75,800	68,924	(6,876)
Materials and supplies	45,300	45,300	38,155	(7,145)
Services and support	274,000	295,500	289,175	(6,325)
Other expenses	<u>18,750</u>	<u>25,750</u>	<u>17,601</u>	<u>(8,149)</u>
	<u>1,030,552</u>	<u>1,068,052</u>	<u>1,026,294</u>	<u>(41,758)</u>
Electric				
Personnel	491,618	491,618	507,589	15,971
Utilities	3,050	3,050	2,568	(482)
Materials and supplies	45,800	45,800	49,255	3,455
Services and support	9,401,500	9,016,500	8,101,361	(915,139)
Other expenses	<u>78,000</u>	<u>463,000</u>	<u>286,373</u>	<u>(176,627)</u>
	<u>10,019,968</u>	<u>10,019,968</u>	<u>8,947,146</u>	<u>(1,072,822)</u>
Water				
Personnel	422,670	422,670	383,131	(39,539)
Utilities	196,100	196,100	277,485	81,385
Materials and supplies	161,300	161,300	144,935	(16,365)
Services and support	318,000	349,000	346,276	(2,724)
Other expenses	<u>35,000</u>	<u>35,300</u>	<u>19,445</u>	<u>(15,855)</u>
	<u>1,133,070</u>	<u>1,164,370</u>	<u>1,171,272</u>	<u>6,902</u>
Sewer				
Personnel	520,337	520,337	506,044	(14,293)
Utilities	294,500	296,000	196,604	(99,396)
Materials and supplies	79,600	89,600	65,637	(23,963)
Services and support	226,000	316,300	329,844	13,544
Other expenses	<u>23,400</u>	<u>23,700</u>	<u>10,121</u>	<u>(13,579)</u>
	<u>1,143,837</u>	<u>1,245,937</u>	<u>1,108,250</u>	<u>(137,687)</u>
Total Expenses	<u>\$ 13,327,427</u>	<u>\$ 13,498,327</u>	<u>\$ 12,252,962</u>	<u>\$ (1,245,365)</u>

**CITY OF BEREA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2013**

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Capital Projects Fund	Prospect St. Upgrade Fund	US 25 North Fund	2013 Total	2012 Total
ASSETS											
Cash and cash equivalents	\$ 549,111	\$ 339,492	\$ 16,570	\$ 17,126	\$ -	\$ 27,949	\$ -	\$ -	\$ 48,387	\$ 998,635	\$ 612,045
Investments	-	506,739	101,798	-	-	-	-	-	-	608,537	755,170
Accounts receivable	22,470	190,485	-	3,843	58,012	-	-	-	-	274,810	392,238
Interest receivable	-	170	62	-	-	-	-	-	-	232	539
Other assets	-	-	-	-	-	-	-	-	-	-	-
Due from other fund	-	-	-	-	-	-	-	-	-	-	170,231
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 571,581</u>	<u>\$ 1,036,886</u>	<u>\$ 118,430</u>	<u>\$ 20,969</u>	<u>\$ 58,012</u>	<u>\$ 27,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,387</u>	<u>\$ 1,882,214</u>	<u>\$ 1,930,223</u>
FUND BALANCE											
Liabilities											
Accounts payable	\$ -	\$ 97,713	\$ 63	\$ 1,780	\$ 58,012	\$ -	\$ -	\$ -	\$ 48,089	\$ 205,657	\$ 253,355
Accrued payroll	-	5,252	-	-	-	-	-	-	-	5,252	4,575
Compensated absences	-	-	-	-	-	-	-	-	-	-	579
Deferred revenue	-	38,535	-	-	-	-	-	-	-	38,535	-
Due to other fund	-	3,024	-	-	-	-	-	-	-	3,024	4,234
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	-	144,524	63	1,780	58,012	-	-	-	48,089	252,468	262,743
Fund balance	<u>571,581</u>	<u>892,362</u>	<u>118,367</u>	<u>19,189</u>	<u>-</u>	<u>27,949</u>	<u>-</u>	<u>-</u>	<u>298</u>	<u>1,629,746</u>	<u>1,667,480</u>
Total liabilities and fund balances	<u>\$ 571,581</u>	<u>\$ 1,036,886</u>	<u>\$ 118,430</u>	<u>\$ 20,969</u>	<u>\$ 58,012</u>	<u>\$ 27,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,387</u>	<u>\$ 1,882,214</u>	<u>\$ 1,930,223</u>

CITY OF BEREA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2013

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Capital Projects Fund	Prospect St. Upgrade Fund	US 25 North Fund	2013 Total	2012 Total
REVENUES											
Municipal Taxation	\$ -	\$ 1,042,213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,042,213	\$ 1,013,429
Intergovernmental revenues	429,358	15,405	-	54,418	69,180	6,417	-	-	172,724	747,502	607,295
Charges for services	-	47,273	-	-	-	-	-	-	-	47,273	41,827
Other revenues	433	20,576	13,883	10	-	29	-	-	12	34,943	20,476
	<u>429,791</u>	<u>1,125,467</u>	<u>13,883</u>	<u>54,428</u>	<u>69,180</u>	<u>6,446</u>	<u>-</u>	<u>-</u>	<u>172,736</u>	<u>1,871,931</u>	<u>1,683,027</u>
Total revenues	429,791	1,125,467	13,883	54,428	69,180	6,446	-	-	172,736	1,871,931	1,683,027
EXPENDITURES											
Current											
General administration	-	-	-	-	-	-	-	-	-	-	46,270
Police department	-	-	-	-	-	18,771	-	-	-	18,771	1,726
Street department	213,293	-	-	-	-	-	-	-	-	213,293	357,332
Tourism	-	885,861	-	-	-	-	-	-	-	885,861	912,944
State Contracts	-	-	-	54,418	69,180	-	-	-	172,724	296,322	155,663
Capital outlay	186,919	94,563	59,849	-	-	-	-	-	-	341,331	861,632
Debt service	-	1,378	103,293	-	-	-	-	-	-	104,671	157,050
	<u>400,212</u>	<u>981,802</u>	<u>163,142</u>	<u>54,418</u>	<u>69,180</u>	<u>18,771</u>	<u>-</u>	<u>-</u>	<u>172,724</u>	<u>1,860,249</u>	<u>2,492,617</u>
Total expenditures	400,212	981,802	163,142	54,418	69,180	18,771	-	-	172,724	1,860,249	2,492,617
Excess revenues over (under) expenditures before other sources (uses)	29,579	143,665	(149,259)	10	-	(12,325)	-	-	12	11,682	(809,590)
Other financing sources											
Note proceeds	-	-	-	-	-	-	-	-	-	-	120,000
Proceeds from sale of assets	-	-	12,100	-	-	-	-	-	-	12,100	10,000
Transfers from (to) other funds	-	-	-	13,979	-	-	(61,241)	(14,254)	-	(61,516)	799,360
	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,979</u>	<u>-</u>	<u>-</u>	<u>(61,241)</u>	<u>(14,254)</u>	<u>-</u>	<u>(61,516)</u>	<u>799,360</u>
Excess revenues and other sources over (under) expenditures	29,579	143,665	(137,159)	13,989	-	(12,325)	(61,241)	(14,254)	12	(37,734)	119,770
Fund balances, July 1, 2012	542,002	748,697	255,526	5,200	-	40,274	61,241	14,254	286	1,667,480	1,547,710
	<u>542,002</u>	<u>748,697</u>	<u>255,526</u>	<u>5,200</u>	<u>-</u>	<u>40,274</u>	<u>61,241</u>	<u>14,254</u>	<u>286</u>	<u>1,667,480</u>	<u>1,547,710</u>
FUND BALANCES-											
JUNE 30, 2013	<u>\$ 571,581</u>	<u>\$ 892,362</u>	<u>\$ 118,367</u>	<u>\$ 19,189</u>	<u>\$ -</u>	<u>\$ 27,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 298</u>	<u>\$ 1,629,746</u>	<u>\$ 1,667,480</u>



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**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
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 City of Berea, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Berea, Kentucky's basic financial statements and have issued our report thereon dated October 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 City of Berea, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of 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. 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 City of Berea, Kentucky's financial statements are free 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*.

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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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley and Company, PLLC
Lexington, Kentucky
October 7, 2013