

CITY OF BEREA
Berea, Kentucky



FINANCIAL STATEMENTS
June 30, 2014

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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, 2014. 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

	Governmental Activities	Business-type Activities	2014 Total Primary Government	2013 Total Primary Government
Current Assets	\$ 10,850,985	\$ 10,557,004	\$ 21,407,989	\$ 18,930,124
Capital Assets	19,622,344	40,920,858	60,543,202	60,993,163
Other Noncurrent Assets	10,937	3,147,230	3,158,167	2,813,860
Total Assets	<u>30,484,266</u>	<u>54,625,092</u>	<u>85,109,358</u>	<u>82,737,147</u>
Deferred Outflows of Resources	<u>-</u>	<u>913,595</u>	<u>913,595</u>	<u>996,650</u>
Total Assets and Deferred Outflow of Resources	<u>30,484,266</u>	<u>55,538,687</u>	<u>86,022,953</u>	<u>83,733,797</u>
Current Liabilities	1,502,279	4,074,397	5,576,676	4,769,283
Long-term Liabilities	1,411,992	19,601,381	21,013,373	22,833,579
Total Liabilities	<u>2,914,271</u>	<u>23,675,778</u>	<u>26,590,049</u>	<u>27,602,862</u>
Net Position:				
Invested in Capital Assets				
Net of Related Debt	18,638,932	19,965,208	38,604,140	37,273,049
Restricted	742,985	2,546,455	3,289,440	2,814,395
Unrestricted	8,188,078	9,351,246	17,539,324	16,043,491
Total Net Position	<u>\$ 27,569,995</u>	<u>\$ 31,862,909</u>	<u>\$ 59,432,904</u>	<u>\$ 56,130,935</u>
Total Liabilities and Net Position	<u>30,484,266</u>	<u>55,538,687</u>	<u>86,022,953</u>	<u>83,733,797</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Berea exceeded liabilities by \$59,432,904. The City's total assets increased by \$2,372,211. This increase included a \$1.5 million increase in investments, including \$600,000 that was reserved for the Capital Sinking Fund established under the FY13-14 budget. The overall increase in total assets was also attributed to an approximate \$744,400 increase in grant receivables related to the Water Street and Bratcher Lane projects.

As further explained in note 14 of the Notes to the Financial Statements, GASB Statement No. 65 redefined certain financial elements and changed the way governments report debt issuance costs. As a result, the City's unamortized deferred amounts and premiums resulting from the 2013 refinance of the Series 2005-A bonds, is now classified as a deferred outflow on the Statement of Net Position.

The City's total liabilities decreased by \$1,012,813 as a result of principal payments on the City's bonds and notes. This resulted in an overall increase in net position of \$3,301,969. However, 40 percent 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 \$3,145,985 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$17,682,779 is unrestricted, which shows an increase of \$1,639,288 over the 2013 unrestricted amount.

Table 2

	Governmental Activities	Business-type Activities	2014 Total Primary Government	2013 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 209,928	\$ 16,523,726	\$ 16,733,654	\$ 16,399,622
Operating Grants & Contributions	1,167,208	-	1,167,208	1,081,672
Capital Grants & Contributions	908,298	435,609	1,343,907	568,411
General Revenue				
Taxes	1,920,469		1,920,469	1,801,476
License fees	8,505,485		8,505,485	8,036,223
Permits	79,828		79,828	63,919
Investment Earnings	32,901	42,620	75,521	88,110
Other Revenues	183,173	-	183,173	149,510
Total Revenues	<u>13,007,290</u>	<u>17,001,955</u>	<u>30,009,245</u>	<u>28,188,943</u>
<u>Program Expenses</u>				
General Government	1,854,495	-	1,854,495	1,654,528
Public Safety - Police	2,718,242	-	2,718,242	2,661,311
Public Safety - Fire	1,472,406	-	1,472,406	1,372,178
Public Works	1,908,419	-	1,908,419	1,719,710
Codes enforcement	348,435	-	348,435	360,433
Parks and Recreation	884,875	-	884,875	871,242
GIS/Surveying	75,793	-	75,793	158,131
Business Development	80,912	-	80,912	79,025
Tourism	967,827	-	967,827	931,028
State Contracts	416,588	-	416,588	296,322
Interest on Long-term Debt	33,081	-	33,081	51,018
Utilities	-	15,909,707	15,909,707	14,970,374
Total Program Expenses	<u>10,761,073</u>	<u>15,909,707</u>	<u>26,670,780</u>	<u>25,125,300</u>
Gain/(Loss) on Sale of Property	<u>(57,332)</u>	<u>20,836</u>	<u>(36,496)</u>	<u>15,121</u>
Change in Net Position	<u>\$ 2,188,885</u>	<u>\$ 1,113,084</u>	<u>\$ 3,301,969</u>	<u>\$ 3,078,764</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 total net position by \$2,188,885 which is significantly higher than the prior year's increase of \$1,280,650. This year's increase in net position from governmental activities accounts for 66 percent of the total growth in the net position of the City as a whole. This results from an overall increase in governmental revenue of \$1,579,478 (14%) which offsets a \$602,290 (6%) increase in expenses.

Much of the increase in total governmental revenue is due to an increase in operating and capital grants. State funds for Water Street, Bratcher Lane, Menelaus Pike, US 25 North and Berea Bypass Phase II projects rose by \$880,000 from the prior year – over half of the total increase in revenue. Additionally, occupational license fees on payroll increased \$389,000 (7%), over half of which is due to an increase in workforce from a single industrial employer.

Business-type activities increased the City's net position by \$1,113,084 compared to the prior year's increase in net position of \$1,781,232. Charges for services only increased by \$311,861 (2%). Though revenue from electric service increased by approximately \$600,000 due a particularly cold winter, water and sewer revenue decreased by nearly \$65,000 (1%) because of a wet summer. There were no rate increases to any of the services during FY14 beyond what was passed through from Kentucky Utilities.

Total operating expenses for business-type activities increased \$982,514 (7%). However, purchased power increased by over \$1 million (13) due to the harsh winter and greater demand loads. Therefore, excluding purchased power, operating expenses would have shown a slight decrease.

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

	2014	2013
Revenues		
Taxes	\$ 1,920,469	\$ 1,801,476
Licenses and permits	8,585,313	8,100,142
Charges for Services	209,928	187,757
Fines & Forfeits	30,764	25,727
Intergovernmental	2,075,506	1,152,544
Other Revenues	185,310	160,166
Total Revenues	<u>13,007,290</u>	<u>11,427,812</u>
Expenditures		
General Government	1,702,056	1,536,123
Public Safety - Police	2,534,440	2,530,843
Public Safety - Fire	1,341,462	1,240,591
Public Works	1,582,189	1,431,897
Codes Enforcement	344,495	353,823
Parks and Recreation	642,054	643,764
GIS/Surveying	62,173	134,030
Business Development	80,992	77,849
Tourism	921,414	885,861
Industrial Development	-	-
State Contracts	416,588	296,322
Capital Outlay	1,530,906	1,071,172
Debt Service	261,640	954,409
Total Expenditures	<u>11,420,409</u>	<u>11,156,684</u>
Excess revenues over (under)		
before other sources (uses)	<u>1,586,881</u>	<u>271,128</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	<u>21,787</u>	<u>12,101</u>
Total Other Financing Sources (Uses)	<u>21,787</u>	<u>12,101</u>
Net Change in Fund Balance	<u>\$ 1,608,668</u>	<u>\$ 283,229</u>

Total fund balance for all governmental funds has increased 20 percent from the prior year. As previously mentioned, \$600,000 (37%) of the increase in fund balance was a result of the establishment of the Capital Sinking Fund.

Total governmental expenditures increased just over 2 percent from the prior year. The largest departmental spending increase occurred within the General Fund Administration department, which increased \$165,933 (11%). This increase resulted from a \$65,000 increase in funding to the Madison County Airport as well additional funding for special programs and public transportation.

Capital Outlay and State Contracts spending increased by nearly \$580,000 (42%) related to progress on Menelaus, Berea Bypass Phase II, Water Street and Bratcher Lane projects. Debt

service decreased by nearly \$700,000 (73%) since the Series 1999 bonds were paid off in the prior fiscal year.

Overall personnel expenditures for governmental funds decreased by \$5,890 from the prior year. This was due to a prolonged vacancy in the GIS department. Personnel costs in the Public Works department increased nearly \$60,000 (8%) as a result of filling the supervisor position which had been vacant in the prior fiscal year. All other departments saw moderate increase in personnel costs resulting from salary and benefit increases.

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	\$ 728,992	\$ 815,875	\$ 86,883
Licenses, Permits & Billings	6,555,000	8,585,313	2,030,313
Charges for Services	135,800	129,604	(6,196)
Fines & Forfeitures	14,340	30,764	16,424
Intergovernmental	1,484,000	1,183,806	(300,194)
Other Revenue	<u>140,975</u>	<u>159,857</u>	<u>18,882</u>
Total Revenues	<u>\$ 9,059,107</u>	<u>\$ 10,905,219</u>	<u>\$ 1,846,112</u>

Table 5
General Fund Expenditures
Budget to Actual

	Budget	Actual	Variance
Administration	\$ 1,832,623	\$ 1,696,233	\$ (136,390)
Police	2,528,000	2,507,483	(20,517)
Fire	1,428,300	1,341,462	(86,838)
Public Works	1,530,178	1,346,545	(183,633)
Codes Enforcement	379,177	344,495	(34,682)
Parks & Recreation	801,963	642,054	(159,909)
GIS/Surveying	165,750	62,173	(103,577)
Business Development	95,165	80,992	(14,173)
Capital Outlay	2,940,000	1,326,457	(1,613,543)
Debt Service	<u>259,168</u>	<u>260,721</u>	<u>1,553</u>
Total Expenditures	<u>\$ 11,960,324</u>	<u>\$ 9,608,615</u>	<u>\$ (2,351,709)</u>

The City tends to budget for revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. Additionally, the City realized a unexpected increase in occupational licensing fees from wages. As a result, the City's revenue exceeded budgeted amounts by \$1,846,112 or 20%.

The City tends to budget expenditures based on realistic estimates of expenses, but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As a result, the City's expenditures were \$2,351,709 or 20% 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 investments in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2014, totals \$60,543,202, a 1% decrease from the prior year. Major capital asset transactions during the year include:

- Partial completion of Bratcher Lane upgrade to include \$623,687 incurred during 2014.
- Completion of the Mayde Road Connector Path with a total project cost of \$109,417.55 over a multi-year period, \$99,750 of which was incurred during fiscal year 2014.
- Purchase of a Jet Vacuum Truck for the sewer division of Berea Utilities at a cost of \$334,966.
- Completion of Phase II of the Solar Farm at a total cost of \$81,320.
- Renovation of the Folk Center kitchen for a total cost of \$72,920.
- Purchase of Hydraulic Excavator for the public works department for a total cost of \$46,429.
- Remodel and addition to Waste Water Treatment Plant caretaker house for a total cost of \$46,250.
- Purchase of 205 Adams Street by Berea Tourism for \$42,580.
- Purchase of ten vehicles for a total cost of \$199,056. Vehicles include three police cars, a two pickups for street department use, a SUV for fire department use.

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

Table 6

	Governmental Activities	Business-type Activities	2014 Total Primary Government	2014 Total Primary Government
Land, Buildings & Improvements	\$ 11,960,990	\$ 2,625,730	\$ 14,586,720	\$ 14,353,314
Construction in Progress	1,231,902	754,885	1,986,787	830,932
Vehicles & Equipment	6,756,154	2,320,843	9,076,997	8,459,541
Infrastructure/Utility Plant	10,617,558	59,410,615	70,028,173	69,555,305
Total Capital Assets	<u>30,566,604</u>	<u>65,112,073</u>	<u>95,678,677</u>	<u>93,199,092</u>
Less Accumulated Depreciation	(10,944,260)	(24,191,215)	(35,135,475)	(32,205,929)
Total Net Capital Assets	<u>\$ 19,622,344</u>	<u>\$ 40,920,858</u>	<u>\$ 60,543,202</u>	<u>\$ 60,993,163</u>

DEBT

The City's long term debt at June 30, 2014, totaled \$22,598,302. The City's debt decreased by \$1,726,026 (7%) during the fiscal year. Table 7 provides a summary of all of the City's outstanding indebtedness.

Table 7

	Governmental Activities	Business-type Activities	2014 Total Primary Government	2013 Total Primary Government
Leases	\$ 3,412	\$ -	\$ 3,412	\$ 5,885
Bonds Payable	980,000	13,450,000	14,430,000	15,715,000
Loans Payable	-	7,315,675	7,315,675	7,791,981
Compensated Absences	665,133	184,082	849,215	811,462
Total Debt Outstanding	<u>1,648,545</u>	<u>20,949,757</u>	<u>22,598,302</u>	<u>24,324,328</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 2015 budget continues the funding of the General Fund Balance Reserve and the Capital Sinking Fund. The \$2,085,000 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 the future financial foundation of the City. In addition to the setting aside of these funds the 2015 Budget appropriates funds for personnel, day to day operational activities and the funding of capital equipment and capital projects.

One of the largest 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. This year the availability and price of road salt is an excellent example of

unforeseen cost that drives up expenditures unexpectedly. The cost of utilities and fuel for our rolling stock is not the challenge it has been in recent years but both remain volatile. 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 2015 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 amended budget except for the amount of Occupational License Fees on Wages earned within the City. Our Industry continue to make positive strides in production resulting in additional jobs.

The 2015 budget as passed is a very progressive budget. It demonstrates strength and support for personnel services, planning, infrastructure and capital equipment. The total amount of monies in the 2015 budget for capital purchases is the largest in recent history. But the city will continues to operate on a cash flow basis being mindful of our revenue versus the expenses calculated at the beginning of each month.

The Berea Municipal Utilities budget is supported by a stable revenue stream. The 2015 budget does not include any increases in water and sewer rates, but does reflect a .04% increase in electric rates passed on by Kentucky Utilities. The management of the Water and Sewer Utilities will require strict attention as the revenues and expenses for both utilities are at a breakeven point. 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, the Oak Street substation upgrade, raw water study, and the construction of the Terrill Branch sewer project

The 2015 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.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Berea
Berea, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Berea, Kentucky as of and for the year ended June 30, 2014, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2014, 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.

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

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 36–40 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Prior-Year Comparative Information

We have previously audited the City's 2013 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated October 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the effects of the restatement of net position described in Note 14.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated October 14, 2014, 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
October 14, 2014

CITY OF BERA, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government			2013
	Governmental Activities	Business-type Activities	Total	Totals
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,193,402	\$ 624,321	\$ 2,817,723	\$ 2,814,008
Investments	6,260,127	7,426,031	13,686,158	12,165,441
Receivables (net) (Note 3)	2,383,508	2,487,704	4,871,212	3,867,079
Other receivable	-	15,731	15,731	78,058
Interest receivable	3,358	3,217	6,575	5,538
Other assets	10,590	-	10,590	-
Internal balances	-	-	-	-
Total current assets	<u>10,850,985</u>	<u>10,557,004</u>	<u>21,407,989</u>	<u>18,930,124</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	2,546,455	2,546,455	2,214,865
Inventory	-	600,775	600,775	585,323
Capital assets (Note 4)				
Construction in progress	1,231,902	754,885	1,986,787	830,932
Land and easements	4,281,961	264,242	4,546,203	4,501,708
Land improvements, net	538,121	78,346	616,467	635,896
Buildings and improvements, net	2,800,850	1,741,703	4,542,553	4,664,684
Depreciable infrastructure, net	8,553,011	-	8,553,011	8,787,370
Plant and sewer system, net	-	14,014,801	14,014,801	14,833,532
Plant and electric system, net	-	7,345,967	7,345,967	7,559,032
Plant and water system, net	-	15,514,894	15,514,894	16,020,013
Vehicles and equipment	1,990,753	1,206,020	3,196,773	3,159,996
Software, net	225,746	-	225,746	-
Other assets	<u>10,937</u>	<u>-</u>	<u>10,937</u>	<u>13,672</u>
Total noncurrent assets	<u>19,633,281</u>	<u>44,068,088</u>	<u>63,701,369</u>	<u>63,807,023</u>
Total assets	<u>30,484,266</u>	<u>54,625,092</u>	<u>85,109,358</u>	<u>82,737,147</u>
DEFERRED OUTFLOWS OF RESOURCES				
Defeasance on refunding	-	913,595	913,595	996,650
Total assets and deferred outflows of resources	<u>\$ 30,484,266</u>	<u>\$ 55,538,687</u>	<u>\$ 86,022,953</u>	<u>\$ 83,733,797</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,002,372	\$ 1,728,872	\$ 2,731,244	\$ 2,093,131
Accrued payroll	190,428	41,933	232,361	206,206
Accrued taxes	999	158,937	159,936	144,950
Accrued interest payable	5,151	6,096	11,247	12,731
Unearned revenue	63,659	-	63,659	38,535
Customer deposits	-	600,208	600,208	568,302
Compensated absences	3,117	-	3,117	7,431
Current portion of long-term obligations (Notes 6 & 7)	<u>236,553</u>	<u>1,538,351</u>	<u>1,774,904</u>	<u>1,697,997</u>
Total current liabilities	<u>1,502,279</u>	<u>4,074,397</u>	<u>5,576,676</u>	<u>4,769,283</u>
Noncurrent liabilities				
Compensated absences	665,133	184,082	849,215	811,462
Noncurrent portion of long-term obligations (Notes 6 & 7)	<u>746,859</u>	<u>19,417,299</u>	<u>20,164,158</u>	<u>22,022,117</u>
Total noncurrent liabilities	<u>1,411,992</u>	<u>19,601,381</u>	<u>21,013,373</u>	<u>22,833,579</u>
Total liabilities	<u>2,914,271</u>	<u>23,675,778</u>	<u>26,590,049</u>	<u>27,602,862</u>
NET POSITION				
Net invested in capital assets	18,638,932	19,965,208	38,604,140	37,273,049
Restricted for				
Debt service	-	683,776	683,776	889,989
Depreciation	-	1,862,679	1,862,679	1,324,876
Other purposes	742,984	-	742,984	599,530
Unrestricted	<u>8,188,079</u>	<u>9,351,246</u>	<u>17,539,325</u>	<u>16,043,491</u>
Total net position	<u>27,569,995</u>	<u>31,862,909</u>	<u>59,432,904</u>	<u>56,130,935</u>
Total liabilities and net position	<u>\$ 30,484,266</u>	<u>\$ 55,538,687</u>	<u>\$ 86,022,953</u>	<u>\$ 83,733,797</u>

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

CITY OF BERA, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government			2013 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,854,495	\$ -	\$ -	\$ -	\$ (1,854,495)	\$ -	\$ (1,854,495)	\$ (1,654,528)
Public safety-Police	2,718,242	32,951	279,298	-	(2,405,993)	-	(2,405,993)	(2,418,559)
Public safety-Fire	1,472,406	-	116,426	-	(1,355,980)	-	(1,355,980)	(1,255,713)
Public works	1,908,419	-	336,646	831,212	(740,561)	-	(740,561)	(1,219,480)
Codes enforcement	348,435	3,331	-	-	(345,104)	-	(345,104)	(356,063)
Parks and recreation	884,875	93,306	15,750	10,086	(765,733)	-	(765,733)	(753,790)
GIS/Surveying	75,793	16	-	-	(75,777)	-	(75,777)	(158,099)
Business development	80,912	-	-	-	(80,912)	-	(80,912)	(79,025)
Tourism	967,827	80,324	2,500	67,000	(818,003)	-	(818,003)	(868,350)
State contracts	416,588	-	416,588	-	-	-	-	-
Interest on long-term debt	33,081	-	-	-	(33,081)	-	(33,081)	(51,018)
Total governmental activities	10,761,073	209,928	1,167,208	908,298	(8,475,639)	-	(8,475,639)	(8,814,625)
Business type activities								
Berea Municipal Utilities	15,909,707	16,523,726	-	435,609	-	1,049,628	1,049,628	1,739,030
Total business-type activities	15,909,707	16,523,726	-	435,609	-	1,049,628	1,049,628	1,739,030
Total primary government	\$ 26,670,780	\$ 16,733,654	\$ 1,167,208	\$ 1,343,907	(8,475,639)	1,049,628	(7,426,011)	(7,075,595)
General revenues								
Taxes:								
Property taxes, levied for general purposes					815,875	-	815,875	759,263
Transient room tax					150,963	-	150,963	135,866
Restaurant tax					953,631	-	953,631	906,347
License fees:								
Franchise					1,131,103	-	1,131,103	1,079,461
Payroll					5,795,824	-	5,795,824	5,406,957
Insurance premiums					813,019	-	813,019	802,052
Occupational					765,539	-	765,539	747,753
Permits:								
Building					51,749	-	51,749	32,113
Electric					27,604	-	27,604	30,100
Other					475	-	475	1,706
Investment earnings					32,901	42,620	75,521	88,110
Miscellaneous					183,173	-	183,173	149,510
Total general revenues					10,721,856	42,620	10,764,476	10,139,238
Gain (loss) on disposal of capital assets					(57,332)	20,836	(36,496)	15,121
Transfers in(out)					-	-	-	-
Change in Net Position					2,188,885	1,113,084	3,301,969	3,078,764
Net position-beginning, as restated					25,381,110	30,749,825	56,130,935	53,052,171
NET POSITION-ENDING					\$ 27,569,995	\$ 31,862,909	\$ 59,432,904	\$ 56,130,935

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

CITY OF BERE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General	Other Governmental Funds	Total Governmental Funds	2013 Totals
ASSETS				
Cash and cash equivalents	\$ 982,197	\$ 1,211,205	\$ 2,193,402	\$ 1,790,808
Investments	5,648,298	611,829	6,260,127	5,179,764
Receivables, net	1,967,189	416,319	2,383,508	1,541,888
Interest receivable	3,125	233	3,358	2,330
Other assets	-	10,590	10,590	-
Due from other funds	130,399	-	130,399	3,024
Total assets	<u>\$ 8,731,208</u>	<u>\$ 2,250,176</u>	<u>\$ 10,981,384</u>	<u>\$ 8,517,814</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 892,168	\$ 110,204	\$ 1,002,372	\$ 310,600
Accrued payroll and related liabilities	184,537	5,891	190,428	173,067
Accrued taxes	999	-	999	1,018
Compensated absences	3,117	-	3,117	7,431
Unearned revenue	-	63,659	63,659	38,535
Due to other funds	-	130,399	130,399	5,421
Total liabilities	<u>1,080,821</u>	<u>310,153</u>	<u>1,390,974</u>	<u>536,072</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	742,984	742,984	599,530
Committed	3,775,404	-	3,775,404	2,608,500
Assigned	3,713,096	1,197,039	4,910,135	4,310,887
Unassigned	161,887	-	161,887	462,825
Total fund balances	<u>7,650,387</u>	<u>1,940,023</u>	<u>9,590,410</u>	<u>7,981,742</u>
Total liabilities and fund balances	<u>\$ 8,731,208</u>	<u>\$ 2,250,176</u>	<u>\$ 10,981,384</u>	<u>\$ 8,517,814</u>

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

Fund balances reported above	\$ 9,590,410	\$ 7,981,742
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	19,622,344	19,230,011
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(5,151)	(6,238)
Bond discounts are amortized over the life of the bond and is not reported in the funds.	10,937	13,672
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,648,545)	(1,838,077)
Net position of governmental activities	<u>\$ 27,569,995</u>	<u>\$ 25,381,110</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, 2014

	General	Other Governmental Funds	Total Governmental Funds	2013 Totals
REVENUES				
Taxes	\$ 815,875	\$ 1,104,594	\$ 1,920,469	\$ 1,801,476
Licenses and permits	8,585,313	-	8,585,313	8,100,142
Charges for services	129,604	80,324	209,928	187,757
Fines and forfeits	30,764	-	30,764	25,727
Intergovernmental	1,183,806	891,700	2,075,506	1,152,544
Other revenues	159,857	25,453	185,310	160,166
Total revenues	<u>10,905,219</u>	<u>2,102,071</u>	<u>13,007,290</u>	<u>11,427,812</u>
EXPENDITURES				
Current:				
General administration	1,696,233	5,823	1,702,056	1,536,123
Public safety-police	2,507,483	26,957	2,534,440	2,530,843
Public safety-fire	1,341,462	-	1,341,462	1,240,591
Public works	1,346,545	235,644	1,582,189	1,431,897
Codes enforcement	344,495	-	344,495	353,823
Parks and recreation	642,054	-	642,054	643,764
GIS/Surveying	62,173	-	62,173	134,030
Business development	80,992	-	80,992	77,849
Tourism	-	921,414	921,414	885,861
State contracts	-	416,588	416,588	296,322
Capital outlay	1,326,457	204,449	1,530,906	1,071,172
Debt service	260,721	919	261,640	954,409
Total expenditures	<u>9,608,615</u>	<u>1,811,794</u>	<u>11,420,409</u>	<u>11,156,684</u>
Excess (deficiency) of revenues over expenditures	<u>1,296,604</u>	<u>290,277</u>	<u>1,586,881</u>	<u>271,128</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	21,787	-	21,787	12,101
Transfers in (out)	(20,000)	20,000	-	-
Total other financing sources and uses	<u>1,787</u>	<u>20,000</u>	<u>21,787</u>	<u>12,101</u>
Net change in fund balances	1,298,391	310,277	1,608,668	283,229
Fund balances-beginning	<u>6,351,996</u>	<u>1,629,746</u>	<u>7,981,742</u>	<u>7,698,513</u>
Fund balances-ending	<u>\$ 7,650,387</u>	<u>\$ 1,940,023</u>	<u>\$ 9,590,410</u>	<u>\$ 7,981,742</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances			\$ 1,608,668	\$ 283,229
add: capital outlay expenditures capitalized			1,530,906	1,071,172
add: debt service expenditures			261,640	954,409
less: proceeds from sale of assets			(21,787)	(12,101)
gain (loss) on disposal of capital assets			(57,332)	11,621
less: amortization of deferred bond cost			(2,735)	(2,736)
change in long term compensated absences			(37,941)	20,381
less: depreciation on governmental activities assets			(1,059,453)	(990,450)
less: interest on long term debt			(33,081)	(51,018)
Change in net position Governmental Activities			<u>\$ 2,188,885</u>	<u>\$ 1,284,507</u>

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

CITY OF BERA, KENTUCKY
STATEMENT OF NET POSITION
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
June 30, 2014

	Business Type Activities	
	Utilities	
	2014	2013 Totals
ASSETS		
Current assets		
Cash and cash equivalents	\$ 624,321	\$ 1,023,200
Investments	7,426,031	6,985,677
Receivables (net)	2,487,704	2,325,191
Other receivables	15,731	78,058
Interest receivable	3,217	3,208
Due from other funds	-	2,397
Total current assets	<u>10,557,004</u>	<u>10,417,731</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,546,455	2,214,865
Inventory	600,775	585,323
Capital assets		
Construction in progress	754,885	220,590
Land and easements	264,242	264,242
Land improvements	84,201	76,207
Buildings and improvements	2,277,286	2,231,047
Plant and electric equipment	11,388,694	11,173,545
Plant and water equipment	19,148,467	19,065,122
Plant and sewer equipment	28,873,455	28,808,498
Vehicles and equipment	2,320,843	1,968,685
Less accumulated depreciation	<u>(24,191,215)</u>	<u>(22,044,784)</u>
Total noncurrent assets	<u>44,068,088</u>	<u>44,563,340</u>
Total assets	<u>54,625,092</u>	<u>54,981,071</u>
DEFERRED OUTFLOWS OF RESOURCES		
Defeasance on refunding	<u>913,595</u>	<u>996,650</u>
Total assets and deferred outflows of resources	<u>\$ 55,538,687</u>	<u>\$ 55,977,721</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 1,728,872	\$ 1,782,531
Accrued payroll and related liabilities	41,933	33,139
Accrued taxes	158,937	143,932
Accrued interest payable	6,096	6,493
Customer deposits	600,208	568,302
Bonds, notes, and loans payable	<u>1,538,351</u>	<u>1,470,524</u>
Total current liabilities	<u>4,074,397</u>	<u>4,004,921</u>
Noncurrent liabilities		
Compensated absences	184,082	184,270
Bonds, notes, and loans payable	<u>19,417,299</u>	<u>21,038,705</u>
Total noncurrent liabilities	<u>19,601,381</u>	<u>21,222,975</u>
Total liabilities	<u>23,675,778</u>	<u>25,227,896</u>
NET POSITION		
Net invested in capital assets	19,965,208	19,253,923
Restricted for debt service	683,776	889,989
Restricted for depreciation reserve	1,862,679	1,324,876
Unrestricted	<u>9,351,246</u>	<u>9,281,037</u>
Total net position	<u>31,862,909</u>	<u>30,749,825</u>
Total liabilities and net position	<u>\$ 55,538,687</u>	<u>\$ 55,977,721</u>

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

CITY OF BERE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2014

	Business Type Activities	
	Utilities	
	2014	2013 Totals
Operating revenues		
Electric service	\$ 10,784,552	\$ 10,179,941
Water service	3,018,053	3,031,325
Sewer service	2,358,718	2,410,306
Other revenues	362,403	590,293
Total operating revenues	16,523,726	16,211,865
Operating expenses		
Administration	1,035,457	1,026,294
Electric	9,849,482	8,947,146
Water	1,162,530	1,171,272
Sewer	1,130,427	1,108,250
Depreciation	2,158,865	2,101,285
Total operating expenses	15,336,761	14,354,247
Operating income (loss)	1,186,965	1,857,618
Nonoperating revenues (expenses)		
Interest and investment revenue	42,620	51,727
Interest expense	(507,162)	(550,343)
Amortization	(65,784)	(65,784)
Gain on sale of capital assets	20,836	3,500
Total nonoperating revenue (expense)	(509,490)	(560,900)
Income before capital contributions and transfers	677,475	1,296,718
Capital contributions		
Electric, water and sewer connection fees	46,265	74,671
Grant revenues	389,344	422,868
Transfers in (out)	-	-
Change in net position	1,113,084	1,794,257
Total net position-beginning, as restated	30,749,825	28,955,568
TOTAL NET POSITION-ENDING	\$ 31,862,909	\$ 30,749,825

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

CITY OF BERE, KENTUCKY
STATEMENT OF CASH FLOWS
BUSINESS TYPE ACTIVITIES
PROPRIETARY FUNDS
for the year ended June 30, 2014

	Business Type Activities	
	Utilities	
	2014	2013 Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 16,470,451	\$ 16,073,580
Payments to suppliers	(11,114,537)	(10,199,704)
Payments for employee services and benefits	(1,967,111)	(2,004,695)
Net cash provided by operating activities	<u>3,388,803</u>	<u>3,869,181</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	435,609	646,482
Proceeds from issuance of refunding bonds	-	9,520,000
Payment of advance refunding	-	(9,520,000)
Principal paid on capital debt	(1,536,306)	(1,361,579)
Purchases of capital assets	(883,689)	(631,216)
Purchases of construction in progress	(587,240)	(1,056,477)
Proceeds from sale of capital assets	20,836	-
Interest paid on capital debt	(507,559)	(550,736)
Net cash (used) by capital and related financing activities	<u>(3,058,349)</u>	<u>(2,953,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment activity (net)	(440,354)	(51,649)
Interest and dividends	42,611	54,039
Net cash provided by investing activities	<u>(397,743)</u>	<u>2,390</u>
Net increase (decrease) in cash and cash equivalents	(67,289)	918,045
Balances-beginning of the year	<u>3,238,065</u>	<u>2,320,020</u>
BALANCES-END OF THE YEAR	<u>\$ 3,170,776</u>	<u>\$ 3,238,065</u>
Reconciliation of operating income (loss) to net cash		
provided (used) by operating activities:		
Operating income (loss)	\$ 1,186,965	\$ 1,857,618
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Depreciation expense	2,158,865	2,101,285
Change in assets and liabilities		
Receivables, net	(100,186)	(247,460)
Inventory	(15,452)	591
Due to/from other funds	2,397	(1,142)
Accounts payable	100,697	44,606
Accrued vacation, sick, & holiday	(188)	(8,447)
Accrued taxes	8,794	12,955
Other liabilities	15,005	89,097
Customer deposits	31,906	20,078
Net cash provided by operating activities	<u>\$ 3,388,803</u>	<u>\$ 3,869,181</u>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Payables for capital items, net	\$ (154,356)	\$ 143,845
Amortization expense	\$ 65,784	\$ 78,809
Non-cash gain on disposal of capital assets	\$ -	\$ 3,500

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

Berea Craft Festival - The Berea Craft Festival Fund is used to account for the activities of the annual Berea Craft Festival.

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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014

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, 2014

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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balances, continued

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:			
Law enforcement	\$ -	\$ 77,449	\$ 77,449
Road surface repairs	-	665,535	665,535
Committed:			
Capital additions	490,404	-	490,404
Capital projects reserve	1,200,000	-	1,200,000
Fund balance reserve	2,085,000	-	2,085,000
Assigned:			
Capital additions	3,182,500	-	3,182,500
Debt service	-	-	-
Other purposes	530,596	1,197,039	1,727,635
Unassigned	161,887	-	161,887
Total fund balances	<u>\$ 7,650,387</u>	<u>\$ 1,940,023</u>	<u>\$ 9,590,410</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 14, 2014, 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, 2014, have not been evaluated by the City.

N. Other Accounting Policies

Inventory is recorded at average cost.

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

Unearned revenues represent revenues received but unearned.

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, 2014

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 entirely 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 \$19,050,337, and the bank balances totaled \$19,353,491. At June 30, 2014, \$20,870,330 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, 2014, 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	\$ 69,012	\$ 217,123	\$ 286,135
Licenses, permits, billings	1,171,071	-	1,171,071
Charges for service	6,076	-	6,076
Intergovernmental	763,297	199,196	962,493
Other	<u>2,733</u>	<u>-</u>	<u>2,733</u>
Gross receivables	2,012,189	416,319	2,428,508
Less: allowance for uncollectible	<u>(45,000)</u>	<u>-</u>	<u>(45,000)</u>
Net receivables	<u>\$ 1,967,189</u>	<u>\$ 416,319</u>	<u>\$ 2,383,508</u>
Business Type Activities:	<u>Total</u>		
Customer	\$ 2,527,704		
Less: allowance for uncollectible	<u>(40,000)</u>		
Net receivables	<u>\$ 2,487,704</u>		

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

4. CAPITAL ASSETS

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

	July 1, 2013	Additions	Deductions	June 30, 2014
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,237,466	\$ 44,495	\$ -	\$ 4,281,961
Construction in progress	610,342	1,076,960	(455,400)	1,231,902
Totals	<u>4,847,808</u>	<u>1,121,455</u>	<u>(455,400)</u>	<u>5,513,863</u>
Capital assets that are depreciated:				
Buildings and improvements	6,816,875	134,677	-	6,951,552
Land improvements	727,477	-	-	727,477
Software	-	259,763	-	259,763
Vehicles	4,125,681	205,696	(152,575)	4,178,802
Equipment	2,365,175	76,177	(123,763)	2,317,589
Totals	<u>14,035,208</u>	<u>676,313</u>	<u>(276,338)</u>	<u>14,435,183</u>
Infrastructure assets	<u>10,508,140</u>	<u>109,418</u>	<u>-</u>	<u>10,617,558</u>
Total depreciable assets	<u>24,543,348</u>	<u>785,731</u>	<u>(276,338)</u>	<u>25,052,741</u>
Less accumulated depreciation:				
Buildings and improvements	3,916,583	234,119	-	4,150,702
Land improvements	165,800	23,556	-	189,356
Software	-	34,017	-	34,017
Vehicles	2,699,185	273,009	(152,575)	2,819,619
Equipment	1,658,807	150,975	(123,763)	1,686,019
Infrastructure assets	<u>1,720,770</u>	<u>343,777</u>	<u>-</u>	<u>2,064,547</u>
Totals	<u>10,161,145</u>	<u>1,059,453</u>	<u>(276,338)</u>	<u>10,944,260</u>
Depreciable capital assets, net	<u>14,382,203</u>	<u>(273,722)</u>	<u>-</u>	<u>14,108,481</u>
Total capital assets, net	<u>\$ 19,230,011</u>	<u>\$ 847,733</u>	<u>\$ (455,400)</u>	<u>\$ 19,622,344</u>
Business-Type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	220,590	587,240	(52,944)	754,885
Totals	<u>484,832</u>	<u>587,240</u>	<u>(52,944)</u>	<u>1,019,127</u>
Capital assets that are depreciated:				
Land improvements	76,207	7,994	-	84,201
Buildings and improvements	2,231,047	46,240	-	2,277,287
Electric system	11,173,545	216,547	(1,399)	11,388,693
Water system	19,065,122	90,958	(7,613)	19,148,467
Plant and sewer system	28,808,498	64,957	-	28,873,455
Vehicle and equipment	<u>1,968,685</u>	<u>355,582</u>	<u>(3,425)</u>	<u>2,320,843</u>
Totals	<u>63,323,104</u>	<u>782,278</u>	<u>(12,437)</u>	<u>64,092,946</u>
Less accumulated depreciation	<u>22,044,784</u>	<u>2,158,865</u>	<u>12,434</u>	<u>24,191,215</u>
Depreciable capital assets, net	<u>41,278,320</u>	<u>(1,376,587)</u>	<u>(3)</u>	<u>39,901,731</u>
Total capital assets, net	<u>\$ 41,763,152</u>	<u>\$ (789,347)</u>	<u>\$ (52,947)</u>	<u>\$ 40,920,858</u>

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 148,759
Police	161,648
Fire	118,260
Public works	320,991
Parks and recreation	239,297
GIS/Surveying	22,830
Tourism	<u>47,668</u>
Total Depreciation Expense	<u>\$1,059,453</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

5. CONSTRUCTION IN PROGRESS

The City is in progress on the following projects:

	June 30, 2014
Business-Type Activities	
Dixie Park Conversion	\$ 14,046
Lagoon Expansion	83,781
Terrill Branch Extension	128,761
Lewis Street Substation Conversion	37,684
Reservoir - Raw Water Source Study	<u>490,613</u>
Total construction in progress	<u>\$ 754,885</u>
Governmental Activities	
City-wide Security System	\$ 8,175
Bratcher Lane	797,227
Water Street Drainage	276,414
Wayfinding Project	89,827
Ellipse Street Shared Use Path	3,612
Scaffold Cane Bike Trail	180
Indian Fort Bike Trail Section II	38,620
Stadium Renovation	<u>17,847</u>
Total construction in progress	<u>\$ 1,231,902</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, 2014, the City had a balance of \$3,120,256 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, 2014, the City had a balance of \$4,195,418 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, 2014

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, 2014, were \$8,865,000. As of June 30, 2014, the City had a balance of \$9,385,000 on the Series 2013 Bonds. 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, 2013	Additions	Deletions	June 30, 2014
Revenue bonds payable	\$ 14,510,000	\$ -	\$ 1,060,000	\$ 13,450,000
Notes payable	7,791,981	-	476,306	7,315,675
Compensated absences	<u>184,270</u>	<u>-</u>	<u>188</u>	<u>184,082</u>
Total debt outstanding	<u>\$ 22,486,251</u>	<u>\$ -</u>	<u>\$ 1,536,494</u>	<u>\$ 20,949,757</u>
Less current portion of:				
Revenue bonds				\$ 1,040,000
Notes payable				481,081
Unamortized premium				<u>17,270</u>
Current portion				<u>1,538,351</u>
Add unamortized premium				<u>189,975</u>
Total long term obligation				<u>\$ 19,601,381</u>

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2014:

	Principal	Interest	Service Fee	Total
2015	\$ 1,521,082	\$ 352,038	\$ 16,460	\$ 1,889,580
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	1,710,665	280,217	12,065	2,002,947
2020-24	9,019,605	919,860	43,206	9,982,671
2025-29	3,266,377	106,005	15,678	3,388,060
2030-31	<u>410,572</u>	<u>4,113</u>	<u>1,028</u>	<u>415,713</u>
Total	<u>\$ 20,765,675</u>	<u>\$ 2,794,605</u>	<u>\$ 131,278</u>	<u>\$ 23,691,558</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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, 2014, the depreciation fund had a balance of \$1,862,679.

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, 2014, the debt service fund had a balance of \$683,776.

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 lease was paid off during the year ended June 30, 2014.
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, 2014 to be paid out January 2017.

June 30,	
2015	\$ 1,553
2016	1,553
2017	<u>306</u>
Total lease payable	<u><u>\$ 3,412</u></u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

7. GOVERNMENTAL ACTIVITIES - LONG TERM DEBT (CONTINUED)

BONDS AND NOTES PAYABLE

Park Expansion Bond Payable

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

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

	Principal	Interest	Total
2015	\$ 236,553	\$ 27,380	\$ 263,933
2016	241,553	20,135	261,688
2017	250,306	12,415	262,720
2018	<u>255,000</u>	<u>4,208</u>	<u>259,208</u>
Total	<u>\$ 983,412</u>	<u>\$ 64,138</u>	<u>\$ 1,047,550</u>

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

	June 30, 2013	Additions	Deletions	June 30, 2014
Leases payable	\$ 5,885	\$ -	\$ 2,473	\$ 3,412
Park bonds payable	1,205,000	-	225,000	980,000
Compensated absences	<u>627,192</u>	<u>37,941</u>	<u>-</u>	<u>665,133</u>
Total debt outstanding	<u>\$ 1,838,077</u>	<u>\$ 37,941</u>	<u>\$ 227,473</u>	<u>\$ 1,648,545</u>
Less current portion of:				
Leases payable				\$ 1,553
Park bonds				<u>235,000</u>
Current portion				<u>236,553</u>
Total long term obligation				<u>\$ 1,411,992</u>

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, 2014 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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

9. TRANSFERS

The following transfers were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 20,000
Menelaus Pike Fund	20,000	-
Capital Projects Fund	-	-
Prospect Street Upgrade Fund	-	-
	<hr/>	<hr/>
Total	<u>\$ 20,000</u>	<u>\$ 20,000</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.

10. RETIREMENT PLAN

CERS

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

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

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

Contributions – For the year ended June 30, 2014, 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, 2014, participating employers contributed 18.89% 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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

10. RETIREMENT PLAN (CONTINUED)

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>
2014	\$ 1,261,000	100%
2013	\$ 1,277,000	100%
2012	\$ 1,206,400	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 55 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 2014. During the fiscal year employees contributed \$73,281 to the 457(b) plan and \$12,425 to the 401(k) plan.

11. PROPERTY TAX RATES AND CALENDAR

Property taxes for fiscal year 2014 were levied in November 2013 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 10 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 2014 financial statement presentation.

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.

CITY OF BERE A, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

14. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 65

Effective July 1, 2013, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the City reported debt issuance costs, including costs related to bond insurance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. Under GASB Statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, as follows:

	2014	2013 Totals
<u>Governmental Activities</u>		
Net position, at beginning of year	\$ 25,400,395	\$ 24,119,745
Bond issuance costs	(19,285)	(19,285)
Amortization expense	<u>-</u>	<u>(3,857)</u>
Net position, at beginning of year, as restated	<u>\$ 25,381,110</u>	<u>\$ 24,096,603</u>
<u>Berea Municipal Utilities</u>		
Net position, at beginning of year	\$ 30,906,126	\$ 29,124,894
Bond issuance costs	(156,301)	(156,301)
Amortization expense	<u>-</u>	<u>(13,025)</u>
Net position, at beginning of year, as restated	<u>\$ 30,749,825</u>	<u>\$ 28,955,568</u>
Total Governmental and Business Type Activities	<u>\$ 56,130,935</u>	<u>\$ 53,052,171</u>

15. SUBSEQUENT EVENTS

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

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.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

15. SUBSEQUENT EVENTS (Continued)

Financial Reporting for Pension Plans, continued

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. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, 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, 2015, 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, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 550,000	\$ 611,200	\$ 669,864	\$ 58,664
State assessment property taxes	9,000	7,100	16,321	9,221
In lieu of property tax	9,300	9,300	9,300	-
Delinquent property taxes	10,000	10,000	16,278	6,278
Bank deposit taxes	55,100	51,392	56,528	5,136
Motor vehicle taxes	40,000	40,000	47,584	7,584
	<u>673,400</u>	<u>728,992</u>	<u>815,875</u>	<u>86,883</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	600,000	600,000	813,019	213,019
Employee withholding	4,600,000	4,700,000	5,795,824	1,095,824
Net profits	250,000	250,000	703,690	453,690
Individual	15,000	15,000	39,096	24,096
Business	7,000	7,000	22,753	15,753
Utility franchise fees	900,000	920,000	1,131,103	211,103
Building permits	37,000	32,000	51,749	19,749
Electric permits	30,000	30,000	27,604	(2,396)
Burning permits	10	-	-	-
Street cut permits	1,000	1,000	475	(525)
	<u>6,440,010</u>	<u>6,555,000</u>	<u>8,585,313</u>	<u>2,030,313</u>
CHARGES FOR SERVICE				
Court costs & fees	16,500	26,000	24,184	(1,816)
Accident reports	2,000	2,000	3,555	1,555
Codes - plat review fee	5,000	2,500	3,331	831
GIS mapping fees	50	-	16	16
Police special services	2,800	2,800	5,212	2,412
Demolition cleanup	2,000	-	-	-
Parks concessions	19,000	19,000	14,362	(4,638)
Pool concessions	25,000	25,000	22,247	(2,753)
Swimming pool fees	57,000	57,000	55,211	(1,789)
Miscellaneous	2,000	1,500	1,486	(14)
	<u>131,350</u>	<u>135,800</u>	<u>129,604</u>	<u>(6,196)</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Fingerprint charges	\$ 800	\$ 900	\$ 1,555	\$ 655
Court restitution	400	400	241	(159)
Codes violations	300	640	4,214	3,574
Penalties and interest	4,000	6,000	14,294	8,294
Parking fines	<u>7,000</u>	<u>6,400</u>	<u>10,460</u>	<u>4,060</u>
	<u>12,500</u>	<u>14,340</u>	<u>30,764</u>	<u>16,424</u>
INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	72,977	2,977
Madison County grants	56,125	53,000	53,000	-
Other grants	1,190,000	1,200,000	863,088	(336,912)
Volunteer fire state aid	-	-	8,250	8,250
Police incentive pay	95,000	95,000	117,315	22,315
Fire incentive pay	<u>66,000</u>	<u>66,000</u>	<u>69,176</u>	<u>3,176</u>
	<u>1,477,125</u>	<u>1,484,000</u>	<u>1,183,806</u>	<u>(300,194)</u>
OTHER REVENUE				
Rental income	74,000	73,475	86,157	12,682
Interest income	35,500	27,500	28,860	1,360
Insurance proceeds	-	35,000	37,887	2,887
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>6,953</u>	<u>1,953</u>
	<u>114,500</u>	<u>140,975</u>	<u>159,857</u>	<u>18,882</u>
TOTAL REVENUE	<u>\$ 8,848,885</u>	<u>\$ 9,059,107</u>	<u>\$ 10,905,219</u>	<u>\$ 1,846,112</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
General Government				
Personnel	\$ 47,873	\$ 47,873	\$ 45,592	\$ (2,281)
Utilities	118,110	114,560	117,168	2,608
Materials and supplies	17,700	19,900	13,122	(6,778)
Services and support	443,900	419,500	370,965	(48,535)
Other expenditures	10,000	13,600	5,792	(7,808)
Administration				
Personnel	312,000	300,700	260,843	(39,857)
Materials and supplies	19,500	21,150	14,685	(6,465)
Services and support	35,100	59,000	91,529	32,529
Other expenditures	6,000	10,800	9,753	(1,047)
City Council				
Personnel	56,840	56,840	54,256	(2,584)
Services and support	62,600	62,600	60,821	(1,779)
Other expenditures	217,400	310,000	276,735	(33,265)
Finance Office				
Personnel	284,600	286,100	282,563	(3,537)
Materials and supplies	16,000	16,000	5,259	(10,741)
Services and support	85,500	85,500	80,400	(5,100)
Other expenditures	8,500	8,500	6,750	(1,750)
Total Administration	<u>1,741,623</u>	<u>1,832,623</u>	<u>1,696,233</u>	<u>(136,390)</u>
POLICE				
Personnel	2,177,400	2,185,900	2,204,489	18,589
Utilities	14,400	14,400	15,476	1,076
Materials and supplies	184,000	184,000	171,650	(12,350)
Services and support	86,900	86,900	69,312	(17,588)
Other expenditures	56,800	56,800	46,556	(10,244)
Total Police Department	<u>2,519,500</u>	<u>2,528,000</u>	<u>2,507,483</u>	<u>(20,517)</u>
FIRE				
Personnel	1,190,500	1,196,500	1,161,919	(34,581)
Utilities	13,200	13,200	10,438	(2,762)
Materials and supplies	104,500	92,500	88,595	(3,905)
Services and support	68,100	115,100	76,936	(38,164)
Other expenditures	11,000	11,000	3,574	(7,426)
Total Fire Department	<u>1,387,300</u>	<u>1,428,300</u>	<u>1,341,462</u>	<u>(86,838)</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
STREETS				
Personnel	\$ 800,800	\$ 801,228	\$ 788,033	\$ (13,195)
Utilities	118,550	115,250	119,946	4,696
Materials and supplies	288,350	298,750	221,074	(77,676)
Services and support	265,400	271,450	214,932	(56,518)
Other expenditures	<u>43,500</u>	<u>43,500</u>	<u>2,560</u>	<u>(40,940)</u>
Total Street Department	<u>1,516,600</u>	<u>1,530,178</u>	<u>1,346,545</u>	<u>(183,633)</u>
CODES ENFORCEMENT				
Personnel	275,450	281,377	273,947	(7,430)
Materials and supplies	25,200	24,200	17,150	(7,050)
Services and support	64,500	65,000	48,014	(16,986)
Other expenditures	<u>8,600</u>	<u>8,600</u>	<u>5,384</u>	<u>(3,216)</u>
Total Codes Enforcement	<u>373,750</u>	<u>379,177</u>	<u>344,495</u>	<u>(34,682)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	287,100	289,550	259,901	(29,649)
Utilities	99,200	94,200	87,404	(6,796)
Materials and supplies	79,400	74,900	49,369	(25,531)
Services and support	57,800	56,800	34,715	(22,085)
Other expenditures	<u>48,750</u>	<u>37,063</u>	<u>19,934</u>	<u>(17,129)</u>
Pool				
Personnel	93,700	93,700	71,111	(22,589)
Utilities	12,900	9,900	8,435	(1,465)
Materials and supplies	61,650	61,650	49,930	(11,720)
Services and support	40,000	40,000	22,335	(17,665)
Other expenditures	<u>11,200</u>	<u>11,200</u>	<u>6,233</u>	<u>(4,967)</u>
Intergenerational Center				
Utilities	18,000	18,000	16,227	(1,773)
Services and support	<u>15,000</u>	<u>15,000</u>	<u>16,460</u>	<u>1,460</u>
Total Parks and Recreation	<u>824,700</u>	<u>801,963</u>	<u>642,054</u>	<u>(159,909)</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 128,700	\$ 128,700	\$ 57,430	\$ (71,270)
Materials and supplies	14,300	14,300	1,530	(12,770)
Services and support	17,550	17,550	2,823	(14,727)
Other expenditures	<u>5,200</u>	<u>5,200</u>	<u>390</u>	<u>(4,810)</u>
Total GIS/Surveying	<u>165,750</u>	<u>165,750</u>	<u>62,173</u>	<u>(103,577)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	73,915	73,915	72,663	(1,252)
Materials and supplies	5,750	5,750	2,341	(3,409)
Services and support	7,000	7,000	2,770	(4,230)
Other expenditures	<u>8,500</u>	<u>8,500</u>	<u>3,218</u>	<u>(5,282)</u>
Total Business Development	<u>95,165</u>	<u>95,165</u>	<u>80,992</u>	<u>(14,173)</u>
CAPITAL OUTLAY	<u>2,934,000</u>	<u>2,940,000</u>	<u>1,326,457</u>	<u>(1,613,543)</u>
DEBT SERVICE	<u>259,168</u>	<u>259,168</u>	<u>260,721</u>	<u>1,553</u>
TOTAL EXPENDITURES	<u>\$ 11,817,556</u>	<u>\$ 11,960,324</u>	<u>\$ 9,608,615</u>	<u>\$ (2,351,709)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	16,562	21,787	5,225
Transfers in (out)	<u>(313,000)</u>	<u>(313,000)</u>	<u>(20,000)</u>	<u>293,000</u>
	<u>(312,000)</u>	<u>(296,438)</u>	<u>1,787</u>	<u>298,225</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,280,671)</u>	<u>\$ (3,197,655)</u>	<u>\$ 1,298,391</u>	<u>\$ 4,496,046</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 BERA, KENTUCKY
BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2014

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 647,400	\$ 647,400	\$ 590,980	\$ (56,420)
Utilities	70,300	73,300	74,271	971
Materials and supplies	42,300	46,800	38,091	(8,709)
Services and support	332,625	360,100	313,740	(46,360)
Other expenses	25,750	30,750	18,375	(12,375)
	<u>1,118,375</u>	<u>1,158,350</u>	<u>1,035,457</u>	<u>(122,893)</u>
Electric				
Personnel	465,400	487,600	471,847	(15,753)
Utilities	3,050	3,050	2,702	(348)
Materials and supplies	52,300	52,300	43,192	(9,108)
Services and support	9,491,000	9,552,500	9,247,178	(305,322)
Other expenses	118,500	118,500	84,563	(33,937)
	<u>10,130,250</u>	<u>10,213,950</u>	<u>9,849,482</u>	<u>(364,468)</u>
Water				
Personnel	391,200	391,200	366,673	(24,527)
Utilities	256,100	256,100	273,071	16,971
Materials and supplies	155,300	155,300	133,426	(21,874)
Services and support	356,500	369,500	353,579	(15,921)
Other expenses	34,500	34,500	35,781	1,281
	<u>1,193,600</u>	<u>1,206,600</u>	<u>1,162,530</u>	<u>(44,070)</u>
Sewer				
Personnel	512,600	555,100	546,217	(8,883)
Utilities	295,000	195,000	193,330	(1,670)
Materials and supplies	83,100	83,100	69,404	(13,696)
Services and support	290,800	340,800	302,977	(37,823)
Other expenses	23,800	23,800	18,499	(5,301)
	<u>1,205,300</u>	<u>1,197,800</u>	<u>1,130,427</u>	<u>(67,373)</u>
Total Expenses	<u>\$ 13,647,525</u>	<u>\$ 13,776,700</u>	<u>\$ 13,177,896</u>	<u>\$ (598,804)</u>

CITY OF BERE, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2014

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2014 Total	2013 Total
ASSETS										
Cash and cash equivalents	\$ 647,434	\$ 429,023	\$ 13,866	\$ 39,201	\$ -	\$ 77,449	3,932	\$ 300	\$ 1,211,205	\$ 998,635
Investments	-	509,469	102,360	-	-	-	-	-	611,829	608,537
Accounts receivable	28,096	217,122	-	37,926	133,175	-	-	-	416,319	274,810
Interest receivable	-	171	62	-	-	-	-	-	233	232
Other assets	-	-	-	-	-	-	10,590	-	10,590	-
Due from other fund	-	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 675,530</u>	<u>\$ 1,155,785</u>	<u>\$ 116,288</u>	<u>\$ 77,127</u>	<u>\$ 133,175</u>	<u>\$ 77,449</u>	<u>\$ 14,522</u>	<u>\$ 300</u>	<u>\$ 2,250,176</u>	<u>\$ 1,882,214</u>
FUND BALANCE										
Liabilities										
Accounts payable	\$ 9,995	\$ 59,444	\$ 63	\$ 37,926	\$ 2,776	\$ -	\$ -	\$ -	\$ 110,204	\$ 205,657
Accrued payroll	-	5,891	-	-	-	-	-	-	5,891	5,252
Compensated absences	-	-	-	-	-	-	-	-	-	-
Unearned revenue	-	49,139	-	-	-	-	14,520	-	63,659	38,535
Due to other fund	-	-	-	-	130,399	-	-	-	130,399	3,024
Total liabilities	9,995	114,474	63	37,926	133,175	-	14,520	-	310,153	252,468
Fund balance	<u>665,535</u>	<u>1,041,311</u>	<u>116,225</u>	<u>39,201</u>	<u>-</u>	<u>77,449</u>	<u>2</u>	<u>300</u>	<u>1,940,023</u>	<u>1,629,746</u>
Total liabilities and fund balances	<u>\$ 675,530</u>	<u>\$ 1,155,785</u>	<u>\$ 116,288</u>	<u>\$ 77,127</u>	<u>\$ 133,175</u>	<u>\$ 77,449</u>	<u>\$ 14,522</u>	<u>\$ 300</u>	<u>\$ 2,250,176</u>	<u>\$ 1,882,214</u>

CITY OF BERA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2014

	Municipal Road Aid Fund	Tourism Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2014 Total	2013 Total
REVENUES										
Municipal Taxation	\$ -	\$ 1,104,594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,104,594	\$ 1,042,213
Intergovernmental revenues	329,185	69,500	-	106,706	309,882	76,427	-	-	891,700	747,502
Charges for services	-	80,324	-	-	-	-	-	-	80,324	47,273
Other revenues	413	10,881	14,113	12	-	30	2	2	25,453	34,943
Total revenues	329,598	1,265,299	14,113	106,718	309,882	76,457	2	2	2,102,071	1,871,931
EXPENDITURES										
Current										
General administration	-	-	5,823	-	-	-	-	-	5,823	-
Police department	-	-	-	-	-	26,957	-	-	26,957	18,771
Street department	235,644	-	-	-	-	-	-	-	235,644	213,293
Tourism	-	921,414	-	-	-	-	-	-	921,414	885,861
State Contracts	-	-	-	106,706	309,882	-	-	-	416,588	296,322
Capital outlay	-	194,017	10,432	-	-	-	-	-	204,449	341,331
Debt service	-	919	-	-	-	-	-	-	919	104,671
Total expenditures	235,644	1,116,350	16,255	106,706	309,882	26,957	-	-	1,811,794	1,860,249
Excess revenues over (under) expenditures before other sources (uses)	93,954	148,949	(2,142)	12	-	49,500	2	2	290,277	11,682
Other financing sources										
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-	12,100
Transfers from (to) other funds	-	-	-	20,000	-	-	-	-	20,000	(61,516)
Excess revenues and other sources over (under) expenditures	93,954	148,949	(2,142)	20,012	-	49,500	2	2	310,277	(37,734)
Fund balances, July 1, 2013	571,581	892,362	118,367	19,189	-	27,949	-	298	1,629,746	1,667,480
FUND BALANCES- JUNE 30, 2014	<u>\$ 665,535</u>	<u>\$ 1,041,311</u>	<u>\$ 116,225</u>	<u>\$ 39,201</u>	<u>\$ -</u>	<u>\$ 77,449</u>	<u>\$ 2</u>	<u>\$ 300</u>	<u>\$ 1,940,023</u>	<u>\$ 1,629,746</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
City of Berea, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Berea, Kentucky, as of and for the year ended June 30, 2014, 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 14, 2014.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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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 & Company, PLLC

October 14, 2014

CITY OF BERE A KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2014

Federal Grantor Program Title	Federal CFDA Number	Pass Through Contract Number	Federal Expenditures
Department of Housing and Urban Development Community Development Block Grant/State's Program (Note 1)	14.228	11D-042	\$ 223,140
Department of Transportation State and Community Highway Safety Cluster (Note 2)	20.600	PT 14-02	10,799
United States Department of Agriculture Watershed Protection and Flood Prevention	10.904	n/a	289,344
National Endowment for the Arts Promotion of the Arts	45.024	n/a	69,500
U.S. Department of Justice Bulletproof Vest Partnership Program	16.607	n/a	\$ 1,163
Equitable Sharing Program	16.922	n/a	<u>4,700</u>
 Total Federal Financial Assistance			 <u>\$ 598,646</u>

Notes:

- (1) Pass Through Grantor - Kentucky Department for Local Government
- (2) Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety

Basis of Presentation

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



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the City Council
City of Berea, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Berea, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Berea, Kentucky's major federal programs for the year ended June 30, 2014. City of Berea, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Berea, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Berea, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Berea, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Berea, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Berea, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Berea, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Berea, Kentucky's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ray, Foley, Hensley, & Company

Ray, Foley, Hensley, & Company, PLLC
October 14, 2014

CITY OF BERE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ No

Non-compliance material to financial statements noted ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None Reported

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

Unqualified for all major programs.

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant/State's Program
10.904	Watershed Protection and Flood Prevention

Dollar threshold used to distinguish between type A
and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE