

CITY OF BEREA
Berea, Kentucky



FINANCIAL STATEMENTS
June 30, 2015

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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, 2015. Please read the following in conjunction with the auditors' report on page 21 and the City's financial statements, which begin to appear on page 14.

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	2015 Total Primary Government	2014 Total Primary Government
Current Assets	\$ 11,590,400	\$ 11,348,914	\$ 22,939,314	\$ 21,407,989
Capital Assets	21,618,286	42,268,597	63,886,883	60,543,202
Other Noncurrent Assets	8,202	3,105,951	3,114,153	3,158,167
Total Assets	<u>33,216,888</u>	<u>56,723,462</u>	<u>89,940,350</u>	<u>85,109,358</u>
Deferred Outflows of Resources	<u>504,924</u>	<u>1,013,388</u>	<u>1,518,312</u>	<u>1,631,328</u>
Total Assets and Deferred Outflow of Resources	<u>33,721,812</u>	<u>57,736,850</u>	<u>91,458,662</u>	<u>86,740,686</u>
Current Liabilities	1,004,475	4,707,027	5,711,502	5,576,676
Long-term Liabilities	<u>7,730,671</u>	<u>19,971,107</u>	<u>27,701,778</u>	<u>29,200,821</u>
Total Liabilities	<u>8,735,146</u>	<u>24,678,134</u>	<u>33,413,280</u>	<u>34,777,497</u>
Deferred Inflows of Resources	<u>474,551</u>	<u>171,849</u>	<u>646,400</u>	<u>-</u>
Net Position:				
Invested in Capital Assets				
Net of Related Debt	19,581,427	22,851,298	42,432,725	38,604,140
Restricted	750,203	2,236,917	2,987,120	3,289,440
Unrestricted	4,180,485	7,798,652	11,979,137	17,539,324
Adjustment to Net Position	-	-	-	(7,469,715)
Total Net Position	<u>\$ 24,512,115</u>	<u>\$ 32,886,867</u>	<u>\$ 57,398,982</u>	<u>\$ 51,963,189</u>
Total Liabilities and Net Position	<u>33,721,812</u>	<u>57,736,850</u>	<u>91,458,662</u>	<u>86,740,686</u>

As further explained in notes 10 and 13 of the Notes to the Financial Statements, GASB Statement No. 68 changed how governments calculate and report the costs and obligations associated with pensions. This new standard required the City of Berea to 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 from the Kentucky County Employees Retirement System. Information necessary to meet the new reporting requirement for the current year was provided by the Kentucky Retirement System. However, information necessary to

restate the all values for the prior year were not provided. As such, only net pension liability, and deferred outflows of resources have been restated for the prior year. A \$7,469,717 adjustment to the prior year's ending net position was made to represent the total retroactive effects of the application of GASB 68. This is important to note as we compare current year and prior year balances since there were no adjustments to the prior year statement of activities.

The City's total assets increased by \$4,830,992. This increase included a \$1.4 million increase in cash that was being accumulated to pay for projects and the purchase of large capital items within the first quarter of the fiscal year which began on July 1, 2015. The overall increase in total assets was also attributed to completion of the Bratcher Lane widening, Water Street drainage and Indian Fort Bike Trail Section II projects as well as the purchase of several pieces of real property. Deferred outflows of resources decreased by \$113 thousand, primarily due to current year amortization.

The City's long-term liabilities have increased from \$21 million to \$27.7 million. However, it is important to understand that the current year's long term liabilities includes a \$7.2 million net pension liability which is not included in the prior year. While this is not a new liability of the City, it is not stated as a long term liability for the prior year because it is not possible to determine the exact amount of the net pension liability for the prior year based on the information provided by the Kentucky Retirement System. When comparing long-term liability between current and prior fiscal years without the effects of GASB 68, we would see that long term liabilities would have decreased by \$550,310. A more thorough discussion of the City's debt appears on page 10 of the Management Discussion and Analysis.

Deferred inflows of resources increased by \$646,400. Again, prior year and current year numbers are not truly comparable since the prior year numbers did not include the effects of GASB 68 on reporting.

This resulted in an overall increase in net position of \$5,435,795 after prior year adjustment to ending net position. However, 70 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 \$2,987,120 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$11,979,137 is unrestricted.

Table 2

	Governmental Activities	Business-type Activities	2015 Total Primary Government	2014 Total Primary Government
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 296,026	\$ 17,454,273	\$ 17,750,299	\$ 16,733,654
Operating Grants & Contributions	1,002,972	-	1,002,972	1,167,208
Capital Grants & Contributions	515,771	1,180,732	1,696,503	1,343,907
General Revenue				
Taxes	1,990,263		1,990,263	1,920,469
License fees	9,113,753		9,113,753	8,505,485
Permits	122,328		122,328	79,828
Investment Earnings	41,099	45,586	86,685	75,521
Other Revenues	248,288	-	248,288	183,173
Total Revenues	<u>13,330,500</u>	<u>18,680,591</u>	<u>32,011,091</u>	<u>30,009,245</u>
<u>Program Expenses</u>				
General Government	1,893,555	-	1,893,555	1,854,495
Public Safety - Police	2,503,971	-	2,503,971	2,718,242
Public Safety - Fire	1,368,361	-	1,368,361	1,472,406
Public Works	2,278,673	-	2,278,673	1,908,419
Codes enforcement	320,862	-	320,862	348,435
Parks and Recreation	830,394	-	830,394	884,875
GIS/Surveying	151,202	-	151,202	75,793
Business Development	27,156	-	27,156	80,912
Tourism	1,257,520	-	1,257,520	967,827
State Contracts	221,227	-	221,227	416,588
Interest on Long-term Debt	24,217	-	24,217	33,081
Utilities	-	15,677,326	15,677,326	15,909,707
Total Program Expenses	<u>10,877,138</u>	<u>15,677,326</u>	<u>26,554,464</u>	<u>26,670,780</u>
Gain/(Loss) on Sale of Property	<u>(27,389)</u>	<u>6,555</u>	<u>(20,834)</u>	<u>(36,496)</u>
Change in Net Position	<u>\$ 2,425,973</u>	<u>\$ 3,009,820</u>	<u>\$ 5,435,793</u>	<u>\$ 3,301,969</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 \$2,425,973 which is an 11 percent increase over the prior year's change in net position from governmental activities. This

year's increase in net position from governmental activities accounts for 45 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 \$323,220 (2%) which offsets a \$116,065 (2%) increase in expenses.

Much of the increase in total governmental revenue is due to an increase in occupational license fees on payroll, which increased \$361,104 (6%), and occupational license fees on net profits, which increased \$136,677 (19%). Building permits, restaurant tax and utility franchise fees also showed small increases (approx. 3%). Operating grants and capital grants decreased by \$556,763 due to the completion of several infrastructure projects during FY15.

Business-type activities increased the City's net position by \$3,009,820 compared to the prior year's increase in net position of \$1,113,084. Charges for services increased by \$930,547 (6%). There were no rate increases to any of the services during FY15 beyond what was passed through from Kentucky Utilities, however a power cost adjustment mechanism is in place to recapture any differences between purchase power cost and the sale of electric to BMU customers.

Total operating expenses for business-type activities decreased by \$232,381 (1%). This decrease is resulting from a \$385,963 (4%) decrease in the cost of purchased power. When excluding the cost of purchased power, operating expenses increased \$153,582 (2%).

As previously noted, prior year balances do not include adjustments for GASB 68 beyond an adjustment to the ending net position, net pension liability and deferred outflows of resources balances. The effect of the implementation of GASB 68 on the current year resulted in a reduction of \$269,371 to the monthly payments made to the Kentucky Retirement System. This amount represents changes in the net pension liability from year to year.

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

	2015	2014
Revenues		
Taxes	\$ 1,990,263	\$ 1,920,469
Licenses and permits	9,236,081	8,585,313
Charges for Services	296,026	209,928
Fines & Forfeits	42,392	30,764
Intergovernmental	1,518,743	2,075,506
Other Revenues	246,995	185,310
Total Revenues	13,330,500	13,007,290
Expenditures		
General Government	1,766,929	1,702,056
Public Safety - Police	2,407,261	2,534,440
Public Safety - Fire	1,284,989	1,341,462
Public Works	1,953,316	1,582,189
Codes Enforcement	325,243	344,495
Parks and Recreation	584,933	642,054
GIS/Surveying	139,267	62,173
Business Development	36,734	80,992
Tourism	1,212,134	921,414
Industrial Development	-	-
State Contracts	221,227	416,588
Capital Outlay	3,116,805	1,530,906
Debt Service	263,933	261,640
Total Expenditures	13,312,771	11,420,409
Excess revenues over (under) before other sources (uses)	<u>17,729</u>	<u>1,586,881</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	4,390	21,787
Financing proceeds	1,290,000	-
Total Other Financing Sources (Uses)	<u>1,294,390</u>	<u>21,787</u>
Net Change in Fund Balance	1,312,119	1,608,668
Fund balances - beginning	9,590,410	7,981,742
Fund balances - ending	10,902,529	9,590,410

Total fund balance for all governmental funds has increased 14 percent from the prior year. Contributions of \$600,000 to the Capital Sinking Fund account for 46 percent of the increase in fund balance. At year ended June 30, 2015, there was \$1.2 million in the Capital Sinking Fund.

Total governmental expenditures increased just over 17 percent from the prior year. The majority of the increase resulting from the purchase of several pieces of real property and the completion of infrastructure projects. Excluding these capital items, total departmental spending increased \$304,170 (3%). Public Works showed a 23 percent increase resulting from personnel

restructuring and purchase of extra road salt because of the abnormal amount of snow during the winter. Tourism saw a 32% increase in expenditures primarily due to the development of the Arts Accelerator Program. The GIS/Survey also showed a substantial increase as a result of hiring a department director. The position had been vacant in the previous year. Several departments showed significant decreases. The Police department decreased expenditures by \$127,179 (5%), the majority of which was from personnel and motor vehicle fuel. The Parks department realized a 9 percent decrease resulting from the vacancy of the department director's position.

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	\$ 739,590	\$ 827,763	\$ 88,173
Licenses, Permits & Billings	7,009,500	9,236,081	2,226,581
Charges for Services	133,600	137,120	3,520
Fines & Forfeitures	18,140	42,392	24,252
Intergovernmental	1,252,250	943,009	(309,241)
Other Revenue	143,142	187,883	44,741
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 9,296,222	\$ 11,374,248	\$ 2,078,026

Table 5
General Fund Expenditures
Budget to Actual

	Budget	Actual	Variance
Administration	\$ 1,965,603	\$ 1,766,928	\$ (198,675)
Police	2,607,000	2,402,389	(204,611)
Fire	1,453,800	1,284,989	(168,811)
Public Works	1,855,111	1,643,465	(211,646)
Codes Enforcement	353,905	325,243	(28,662)
Parks & Recreation	758,168	584,933	(173,235)
GIS/Surveying	157,530	139,267	(18,263)
Business Development	97,300	36,734	(60,566)
Capital Outlay	3,594,751	3,039,156	(555,595)
Debt Service	262,381	263,933	1,552
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 13,105,549	\$ 11,487,037	\$ (1,618,512)

The City tends to budget for revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. As a result, the City's revenue exceeded budgeted amounts by \$2,078,026 or 18 percent.

The City tends to budget expenditures based on realistic estimates of expenses, but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As a result, the City's expenditures were \$1,618,512 or 14 percent 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, 2015, totals \$63,886,883, a 6% increase from the prior year. Major capital asset transactions during the year include:

- Completion of the Bratcher Lane project with a total project cost of \$1,307,045 over a multi-year period, \$509,817 of which was incurred during fiscal year 2015.
- Completion of Terrill Branch Sewer Expansion project with a total cost of \$1,079,512 over a multi-year period, \$950,751 of which was incurred in the current year.
- Purchase of the Tolle Gallery and Ford parking lot for \$990,000
- Completion of the Indian Fort Bike Trail Section II with a total cost of \$367,657 over a multi-year period, \$329,038 of which was incurred during FY 2015.
- Completion of the Water Street drainage project with a total cost of \$352,746 over a multi-year period, \$76,332 of which was incurred during fiscal year 2015.
- Purchase of 137-139 North Broadway for \$300,000
- Conversion of electrical service in Dixie Park Subdivision from 4Kv to 12Kv service for a total cost of \$266,172.
- Purchase of 2014 Tanker for the Fire Department for \$198,837.
- Purchase of 107 Parkway for \$99,827.

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

Table 6

			2015 Total	2014 Total
	Governmental Activities	Business-type Activities	Primary Government	Primary Government
Land, Buildings & Improvements	\$ 13,463,947	\$ 2,625,730	\$ 16,089,677	\$ 14,586,720
Construction in Progress	293,906	2,736,581	3,030,487	1,986,787
Vehicles & Equipment	7,032,208	2,366,309	9,398,517	9,076,997
Infrastructure/Utility Plant	12,645,007	60,893,124	73,538,131	70,028,173
Total Capital Assets	<u>33,435,068</u>	<u>68,621,744</u>	<u>102,056,812</u>	<u>95,678,677</u>
Less Accumulated Depreciation	(11,816,782)	(26,353,147)	(38,169,929)	(35,135,475)
Total Net Capital Assets	<u>\$ 21,618,286</u>	<u>\$ 42,268,597</u>	<u>\$ 63,886,883</u>	<u>\$ 60,543,202</u>

DEBT

During the fiscal year, the City received financing proceeds in the amount of \$1,290,000 for the purchase of the Tolle Building and 137/139 North Broadway. The new debt bears an interest rate of 2.65% and is scheduled to be paid out on June 1, 2015 with a balloon payment.

Table 7

			2015 Total	2014 Total
	Governmental Activities	Business-type Activities	Primary Government	Primary Government
Leases	\$ 1,291,859	\$ -	\$ 1,291,859	\$ 3,412
Bonds Payable	745,000	12,410,000	13,155,000	14,430,000
Loans Payable	-	6,834,593	6,834,593	7,315,675
Net Pension Liability	5,316,468	1,925,247	7,241,715	5,483,853
Compensated Absences	691,960	211,735	903,695	849,215
Total Debt Outstanding	<u>8,045,287</u>	<u>21,381,575</u>	<u>29,426,862</u>	<u>22,598,302</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's financial condition is stronger this fiscal year (2015-2016) than in previous years. The industrial and commercial economy of the City of Berea remains strong. Occupational Licenses Fees, Net Profits, Franchise Fees, and Property Tax are the major sources of the City's revenue. Meaning the operating revenue depends upon the economy as it relates to the investment of individual families, small commercial investments and industry.

The \$2,200,000 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. The Capital Sinking fund this fiscal year includes an additional \$150,000 that will be matched again in the 2017 budget for the purpose of purchasing fire apparatus. CESEP will also contribute four hundred

thousand dollars toward the purchase of the fire apparatus in FY 2017. These reserve funds are unbudgeted and will require a budget amendment by council before money can be spent. Both are created to strengthen future financial foundation of the City. Berea's current budget has \$4,642,131 in unallocated or unbudgeted funds.

One of the biggest challenges for the budget each year is to plan for the unknown. We routinely plan for challenges that are fairly specific but hard to predict in frequency and such as winter storms and the cost of gasoline and utilities. We also try to budget for challenges that are hard to recognize until they appear and negatively impact our cash flow. Our present budget prepares us for more of the unknowns giving the 2016 budget a financial cushion to accommodate financial surprises. In light of Berea's financial history and our projections, the revenue estimates remain at the level set in the prior budget except that the amount of Occupational License Fees on Wages received from our industry, which we have increased slightly. Revenues from our industry are substantial and remain challenged by the world economy.

Economic factors that most threatens the financial integrity of the City is our ability to provide competitive wages and a benefits package for our employees that is not challenged by the corporate world. Even though pension reform is a must in Kentucky the new hybrid systems that are being implement removes local governments from recruiting highly talented employees.

The cost of infrastructure improvements remains the focus of the Berea Municipal Utilities. The focus for the current year will center on our electric system and substation upgrades as well as continued planning for the improvement of Owsley Fork Dam. Studies of the sewer system will also be a part of this year's activities as we study the inflow and infiltration of the collection system. Each of these projects will come with challenging cost. Cautious planning of these projects will protect the financial integrity of the Utilities. The budgets for the utilities for the past two years have produced marginal returns. A cost of services study is being done which more than likely lead to an increase in rates for both water and sewer. Kentucky Utilities annual adjustment in Electric rates has been offset by refunds to the FERC proceedings relative to the 2014 filing by KU for increased rates.

The 2016 budget provides more potential spending on infrastructure. The second-phase of the Berea By-pass is likely to be awarded this fiscal year along with the upgrade of US 25 North. In total, these projects will enhance the transportation infrastructure of our City by \$29,000,000.

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.



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, 2015, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension schedules on pages 1–11, and 39–46 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.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated October 29, 2015, 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.

RFH

RFH, PLLC

October 29, 2015

CITY OF BERA, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,952,526	\$ 1,262,650	\$ 4,215,176
Investments	6,998,000	7,468,530	14,466,530
Receivables (net)	1,625,019	2,558,709	4,183,728
Other receivables	-	55,197	55,197
Interest receivable	4,849	3,828	8,677
Other assets	10,006	-	10,006
Internal balances	-	-	-
Total current assets	<u>11,590,400</u>	<u>11,348,914</u>	<u>22,939,314</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	2,236,917	2,236,917
Inventory	-	869,034	869,034
Capital assets			
Construction in progress	293,906	2,736,581	3,030,487
Land and easements	5,162,990	264,242	5,427,232
Land improvements, net	530,851	74,233	605,084
Buildings and improvements, net	3,163,472	1,670,587	4,834,059
Depreciable infrastructure, net	10,228,090	-	10,228,090
Plant and sewer system, net	-	14,250,360	14,250,360
Plant and electric system, net	-	7,225,719	7,225,719
Plant and water system, net	-	14,961,854	14,961,854
Vehicles and equipment	2,038,588	1,085,021	3,123,609
Software, net	200,389	-	200,389
Other assets	<u>8,202</u>	<u>-</u>	<u>8,202</u>
Total noncurrent assets	<u>21,626,488</u>	<u>45,374,548</u>	<u>67,001,036</u>
Total assets	<u>33,216,888</u>	<u>56,723,462</u>	<u>89,940,350</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	504,924	182,847	687,771
Defeasance on refunding	-	830,541	830,541
Total assets and deferred outflows of resources	<u>\$ 33,721,812</u>	<u>\$ 57,736,850</u>	<u>\$ 91,458,662</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 393,266	\$ 2,257,324	\$ 2,650,590
Accrued payroll	205,969	49,945	255,914
Accrued taxes and other liabilities	3,734	160,099	163,833
Accrued interest payable	1,988	5,695	7,683
Unearned revenue	81,238	-	81,238
Customer deposits	-	650,790	650,790
Compensated absences	3,664	-	3,664
Current portion of long-term obligations	314,616	1,583,174	1,897,790
Total current liabilities	<u>1,004,475</u>	<u>4,707,027</u>	<u>5,711,502</u>
Noncurrent liabilities			
Compensated absences	691,960	211,735	903,695
Noncurrent portion of long-term obligations	1,722,243	17,834,125	19,556,368
Net pension liability	5,316,468	1,925,247	7,241,715
Total noncurrent liabilities	<u>7,730,671</u>	<u>19,971,107</u>	<u>27,701,778</u>
Total liabilities	<u>8,735,146</u>	<u>24,678,134</u>	<u>33,413,280</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	<u>474,551</u>	<u>171,849</u>	<u>646,400</u>
NET POSITION			
Net invested in capital assets	19,581,427	22,851,298	42,432,725
Restricted for			
Debt service	-	874,848	874,848
Depreciation	-	1,362,069	1,362,069
Other purposes	750,202	-	750,202
Unrestricted	<u>4,180,486</u>	<u>7,798,652</u>	<u>11,979,138</u>
Total net position	<u>24,512,115</u>	<u>32,886,867</u>	<u>57,398,982</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 33,721,812</u>	<u>\$ 57,736,850</u>	<u>\$ 91,458,662</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, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 1,893,555	\$ -	\$ -	\$ -	\$ (1,893,555)	\$ -	\$ (1,893,555)
Public safety-Police	2,503,971	39,354	211,566	-	(2,253,051)	-	(2,253,051)
Public safety-Fire	1,368,361	-	115,498	-	(1,252,863)	-	(1,252,863)
Public works	2,278,673	-	432,181	515,771	(1,330,721)	-	(1,330,721)
Codes enforcement	320,862	4,266	-	-	(316,596)	-	(316,596)
Parks and recreation	830,394	93,474	15,000	-	(721,920)	-	(721,920)
GIS/Surveying	151,202	26	-	-	(151,176)	-	(151,176)
Business development	27,156	-	-	-	(27,156)	-	(27,156)
Tourism	1,257,520	158,906	7,500	-	(1,091,114)	-	(1,091,114)
State contracts	221,227	-	221,227	-	-	-	-
Interest on long-term debt	24,217	-	-	-	(24,217)	-	(24,217)
Total governmental activities	10,877,138	296,026	1,002,972	515,771	(9,062,369)	-	(9,062,369)
Business-type activities							
Berea Municipal Utilities	15,677,326	17,454,273	-	1,180,732	-	2,957,679	2,957,679
Total business-type activities	15,677,326	17,454,273	-	1,180,732	-	2,957,679	2,957,679
Total primary government	\$ 26,554,464	\$ 17,750,299	\$ 1,002,972	\$ 1,696,503	(9,062,369)	2,957,679	(6,104,690)
General revenues							
Taxes:							
Property taxes, levied for general purposes					827,763	-	827,763
Transient room tax					167,137	-	167,137
Restaurant tax					995,363	-	995,363
License fees:							
Franchise					1,163,899	-	1,163,899
Payroll					6,156,928	-	6,156,928
Insurance premiums					892,739	-	892,739
Occupational					900,187	-	900,187
Permits:							
Building					92,144	-	92,144
Electric					29,784	-	29,784
Other					400	-	400
Investment earnings					41,099	45,586	86,685
Miscellaneous					248,288	-	248,288
Total general revenues					11,515,731	45,586	11,561,317
Gain (loss) on disposal of capital assets					(27,389)	6,555	(20,834)
Transfers in(out)					-	-	-
Change in Net Position					2,425,973	3,009,820	5,435,793
Net position-beginning, as restated					22,086,142	29,877,047	51,963,189
NET POSITION-ENDING					\$ 24,512,115	\$ 32,886,867	\$ 57,398,982

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

CITY OF BERA, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,912,598	\$ 193,099	\$ 846,829	\$ 2,952,526
Investments	6,282,310	612,728	102,962	6,998,000
Receivables, net	1,362,269	210,321	52,429	1,625,019
Interest receivable	4,372	403	74	4,849
Other assets	-	-	10,006	10,006
Due from other funds	9,232	309,578	-	318,810
Total assets	<u>\$ 9,570,781</u>	<u>\$ 1,326,129</u>	<u>\$ 1,012,300</u>	<u>\$ 11,909,210</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 251,320	\$ 103,135	\$ 38,811	\$ 393,266
Accrued payroll and related liabilities	198,247	7,722	-	205,969
Accrued taxes and other liabilities	984	2,750	-	3,734
Compensated absences	3,664	-	-	3,664
Unearned revenue	-	62,928	18,310	81,238
Due to other funds	309,578	-	9,232	318,810
Total liabilities	<u>763,793</u>	<u>176,535</u>	<u>66,353</u>	<u>1,006,681</u>
Fund balances				
Nonspendable	-	-	-	-
Restricted	-	-	750,202	750,202
Committed	4,744,512	-	-	4,744,512
Assigned	3,657,869	1,149,594	195,745	5,003,208
Unassigned	404,607	-	-	404,607
Total fund balances	<u>8,806,988</u>	<u>1,149,594</u>	<u>945,947</u>	<u>10,902,529</u>
Total liabilities and fund balances	<u>\$ 9,570,781</u>	<u>\$ 1,326,129</u>	<u>\$ 1,012,300</u>	<u>\$ 11,909,210</u>

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

Fund balances reported above	\$ 10,902,529
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,618,286
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(1,988)
Bond discounts are amortized over the life of the bond and is not reported in the funds.	8,202
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	30,373
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds.	(8,045,287)
Net position of governmental activities	<u>\$ 24,512,115</u>

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

CITY OF BERE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2015

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 827,763	\$ 1,162,500	\$ -	\$ 1,990,263
Licenses and permits	9,236,081	-	-	9,236,081
Charges for services	137,120	91,839	67,067	296,026
Fines and forfeits	42,392	-	-	42,392
Intergovernmental	943,009	7,500	568,234	1,518,743
Other revenues	187,883	44,416	14,696	246,995
Total revenues	<u>11,374,248</u>	<u>1,306,255</u>	<u>649,997</u>	<u>13,330,500</u>
EXPENDITURES				
Current:				
General administration	1,766,928	-	1	1,766,929
Public safety-police	2,402,389	-	4,872	2,407,261
Public safety-fire	1,284,989	-	-	1,284,989
Public works	1,643,465	-	309,851	1,953,316
Codes enforcement	325,243	-	-	325,243
Parks and recreation	584,933	-	-	584,933
GIS/Surveying	139,267	-	-	139,267
Business development	36,734	-	-	36,734
Tourism	-	1,155,505	56,629	1,212,134
State contracts	-	-	221,227	221,227
Capital outlay	3,039,156	42,467	35,182	3,116,805
Debt service	263,933	-	-	263,933
Total expenditures	<u>11,487,037</u>	<u>1,197,972</u>	<u>627,762</u>	<u>13,312,771</u>
Excess (deficiency) of revenues over expenditures	<u>(112,789)</u>	<u>108,283</u>	<u>22,235</u>	<u>17,729</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	4,390	-	-	4,390
Financing proceeds	1,290,000	-	-	1,290,000
Transfers in (out)	(25,000)	-	25,000	-
Total other financing sources and uses	<u>1,269,390</u>	<u>-</u>	<u>25,000</u>	<u>1,294,390</u>
Net change in fund balances	<u>1,156,601</u>	<u>108,283</u>	<u>47,235</u>	<u>1,312,119</u>
Fund balances-beginning	<u>7,650,387</u>	<u>1,041,311</u>	<u>898,712</u>	<u>9,590,410</u>
Fund balances-ending	<u>\$ 8,806,988</u>	<u>\$ 1,149,594</u>	<u>\$ 945,947</u>	<u>\$ 10,902,529</u>
Reconciliation to government-wide change in net position:				
Net change in fund balances				\$ 1,312,119
add: capital outlay expenditures capitalized				3,116,805
add: debt service expenditures				263,933
less: proceeds from sale of assets				(4,390)
less: financing proceeds				(1,290,000)
gain (loss) on disposal of capital assets				(27,389)
less: amortization of deferred bond cost				(2,735)
change in long term compensated absences				(26,827)
less: depreciation on governmental activities assets				(1,089,083)
change in net pension liability				197,757
less: interest on long term debt				(24,217)
Change in net position Governmental Activities				<u>\$ 2,425,973</u>

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

CITY OF BEREA, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business- Type Activities Utilities 2015
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,262,650
Investments	7,468,530
Receivables (net)	2,528,652
Grant receivables	30,057
Other receivables	55,197
Interest receivable	3,828
Due from other funds	<u>-</u>
Total current assets	<u>11,348,914</u>
Noncurrent assets	
Restricted cash and cash equivalents	2,236,917
Inventory	869,034
Capital assets	
Construction in progress	2,736,581
Land and easements	264,242
Land improvements	84,201
Buildings and improvements	2,277,286
Plant and electric equipment	11,707,656
Plant and water equipment	19,193,717
Plant and sewer equipment	29,991,752
Vehicles and equipment	2,366,309
Less accumulated depreciation	<u>(26,353,147)</u>
Total noncurrent assets	<u>45,374,548</u>
Total assets	<u>56,723,462</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	182,847
Defeasance on refunding	<u>830,541</u>
Total assets and deferred outflows of resources	<u>\$ 57,736,850</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,257,324
Accrued payroll and related liabilities	49,945
Accrued taxes and other liabilities	160,099
Accrued interest payable	5,695
Customer deposits	650,790
Bonds, notes, and loans payable	<u>1,583,174</u>
Total current liabilities	<u>4,707,027</u>
Noncurrent liabilities	
Compensated absences	211,735
Bonds, notes, and loans payable	17,834,125
Net pension liability	<u>1,925,247</u>
Total noncurrent liabilities	<u>19,971,107</u>
Total liabilities	<u>24,678,134</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	<u>171,849</u>
NET POSITION	
Net invested in capital assets	22,851,298
Restricted for debt service	874,848
Restricted for depreciation reserve	1,362,069
Unrestricted	<u>7,798,652</u>
Total net position	<u>32,886,867</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 57,736,850</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
PROPRIETARY FUNDS
for the year ended June 30, 2015

	Business-Type Activities Utilities
	2015
Operating revenues	
Electric service	\$ 11,597,597
Water service	3,031,808
Sewer service	2,416,496
Other revenues	<u>408,372</u>
Total operating revenues	<u>17,454,273</u>
Operating expenses	
Administration	1,083,792
Electric	9,588,749
Water	1,145,751
Sewer	1,133,845
Depreciation	<u>2,194,317</u>
Total operating expenses	<u>15,146,454</u>
Operating income (loss)	<u>2,307,819</u>
Nonoperating revenues (expenses)	
Interest and investment revenue	45,586
Interest expense	(465,088)
Amortization	(65,784)
Gain on sale of capital assets	<u>6,555</u>
Total nonoperating revenue (expense)	<u>(478,731)</u>
Income before capital contributions and transfers	1,829,088
Capital contributions	
Electric, water and sewer connection fees	62,775
Grant revenues	1,117,957
Transfers in (out)	<u>-</u>
Change in net position	3,009,820
Total net position-beginning, as restated	<u>29,877,047</u>
TOTAL NET POSITION-ENDING	<u><u>\$ 32,886,867</u></u>

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

CITY OF BERE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2015

	Business-Type Activities Utilities 2015
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 17,425,603
Payments to suppliers	(11,272,739)
Payments for employee services and benefits	<u>(1,993,437)</u>
Net cash provided by operating activities	<u>4,159,427</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	1,150,675
Principal paid on capital debt	(1,521,081)
Purchases of capital assets and construction in progress	(3,005,738)
Proceeds from sale of capital assets	8,520
Interest paid on capital debt	<u>(465,489)</u>
Net cash (used) by capital and related financing activities	<u>(3,833,113)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment activity (net)	(42,499)
Interest and dividends	<u>44,976</u>
Net cash provided by investing activities	<u>2,477</u>
Net increase (decrease) in cash and cash equivalents	328,791
Balances-beginning of the year	<u>3,170,776</u>
BALANCES-END OF THE YEAR	<u><u>\$ 3,499,567</u></u>
Reconciliation of operating income (loss) to net cash	
provided (used) by operating activities:	
Operating income (loss)	\$ 2,307,819
Adjustments to reconcile operating income to net cash	
provided (used) by operating activities:	
Depreciation expense	2,194,317
Change in assets and liabilities	
Receivables, net	(80,414)
Inventory	(268,259)
Due to/from other funds	-
Accounts payable	(9,831)
Accrued vacation, sick, & holiday	27,653
Accrued taxes	8,012
Other liabilities	1,162
Customer deposits	50,582
Net pension liability	<u>(71,614)</u>
Net cash provided by operating activities	<u><u>\$ 4,159,427</u></u>
Supplemental disclosures of cash flow information:	
Noncash capital and related financing activities:	
Payables for capital items, net	<u>\$ 538,283</u>
Amortization expense	<u>\$ 65,784</u>

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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, fund balance or net position, revenues and expenditures or expenses.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, continued

Fund Financial Statements, continued

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

The following funds are used by the City of Berea:

Governmental Funds

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

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

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

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

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

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

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

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, 2015

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, 2015

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, 2015

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. Pensions

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

M. Fund Balances

Fund balances of the governmental funds are classified as follows:

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

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

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balances, continued

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

Unassigned — all other spendable amounts.

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted:				
Law enforcement	\$ -	\$ -	\$ 92,705	\$ 92,705
Road surface repairs	-	-	657,498	657,498
Committed:				
Capital additions	594,512	-	-	594,512
Capital projects reserve	1,950,000	-	-	1,950,000
Fund balance reserve	2,200,000	-	-	2,200,000
Assigned:				
Capital additions	2,455,000	-	-	2,455,000
Debt service	260,136	-	-	260,136
Other purposes	942,733	1,149,594	195,744	2,288,071
Unassigned	404,607	-	-	404,607
Total fund balances	<u>\$ 8,806,988</u>	<u>\$ 1,149,594</u>	<u>\$ 945,947</u>	<u>\$ 10,902,529</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.

N. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 29, 2015, 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, 2015, have not been evaluated by the City.

O. Other Accounting Policies

Inventory is recorded at average cost.

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

Unearned revenues represent revenues received but unearned.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

2. CASH AND INVESTMENTS

Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The carrying amount of the City's deposits totaled \$20,918,623, and the bank balances totaled \$20,835,745. At June 30, 2015, \$22,008,894 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, 2015, consist entirely of certificates of deposit with maturities of one year or less.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

3. RECEIVABLES

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

	General Fund	Tourism Fund	Nonmajor Funds	Governmental Funds Total
Governmental Funds:				
Taxes	\$ 78,103	\$ 210,121	\$ -	\$ 288,224
Licenses, permits, billings	1,273,450	-	-	1,273,450
Charges for service	-	-	-	-
Intergovernmental	51,646	-	52,429	104,075
Other	<u>15,070</u>	<u>200</u>	<u>-</u>	<u>15,270</u>
Gross receivables	1,418,269	210,321	52,429	1,681,019
Less: allowance for uncollectible	<u>(56,000)</u>	<u>-</u>	<u>-</u>	<u>(56,000)</u>
Net receivables	<u>\$ 1,362,269</u>	<u>\$ 210,321</u>	<u>\$ 52,429</u>	<u>\$ 1,625,019</u>
Business-Type Activities:	Total			
Customer	\$ 2,603,652			
Less: allowance for uncollectible	<u>(75,000)</u>			
Net receivables	<u>\$ 2,528,652</u>			

4. CAPITAL ASSETS

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

	July 1, 2014	Additions	Deductions	June 30, 2015
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 4,281,961	\$ 891,029	\$ -	\$ 5,162,990
Construction in progress	<u>1,231,902</u>	<u>1,099,428</u>	<u>(2,037,424)</u>	<u>293,906</u>
Totals	<u>5,513,863</u>	<u>1,990,457</u>	<u>(2,037,424)</u>	<u>5,456,896</u>
Capital assets that are depreciated:				
Buildings and improvements	6,951,552	605,186	-	7,556,738
Land improvements	727,477	16,742	-	744,219
Software	259,763	12,000	-	271,763
Vehicles	4,178,802	396,003	(224,316)	4,350,489
Equipment	<u>2,317,589</u>	<u>106,390</u>	<u>(14,023)</u>	<u>2,409,956</u>
Totals	14,435,183	1,136,321	(238,339)	15,333,165
Infrastructure assets	<u>10,617,558</u>	<u>2,027,449</u>	<u>-</u>	<u>12,645,007</u>
Total depreciable assets	<u>25,052,741</u>	<u>3,163,770</u>	<u>(238,339)</u>	<u>27,978,172</u>
Less accumulated depreciation:				
Buildings and improvements	4,150,702	242,564	-	4,393,266
Land improvements	189,356	24,012	-	213,368
Software	34,017	37,357	-	71,374
Vehicles	2,819,619	291,245	(202,538)	2,908,326
Equipment	1,686,019	141,535	(14,023)	1,813,531
Infrastructure assets	<u>2,064,547</u>	<u>352,370</u>	<u>-</u>	<u>2,416,917</u>
Totals	<u>10,944,260</u>	<u>1,089,083</u>	<u>(216,561)</u>	<u>11,816,782</u>
Depreciable capital assets, net	<u>14,108,481</u>	<u>2,074,687</u>	<u>(21,778)</u>	<u>16,161,390</u>
Total capital assets, net	<u>\$ 19,622,344</u>	<u>\$ 4,065,144</u>	<u>\$ (2,059,202)</u>	<u>\$ 21,618,286</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

4. CAPITAL ASSETS (CONTINUED)

	July 1, 2014	Additions	Deductions	June 30, 2015
Business-Type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	754,885	3,327,380	(1,345,684)	2,736,581
Totals	<u>1,019,127</u>	<u>3,327,380</u>	<u>(1,345,684)</u>	<u>3,000,823</u>
Capital assets that are depreciated:				
Land improvements	84,201	-	-	84,201
Buildings and improvements	2,277,287	-	-	2,277,287
Electric system	11,388,693	318,963	-	11,707,656
Water system	19,148,467	45,249	-	19,193,716
Plant and sewer system	28,873,455	1,122,647	(4,350)	29,991,752
Vehicle and equipment	2,320,843	75,466	(30,000)	2,366,309
Totals	64,092,946	1,562,325	(34,350)	65,620,921
Less accumulated depreciation	<u>24,191,215</u>	<u>2,194,317</u>	<u>(32,385)</u>	<u>26,353,147</u>
Depreciable capital assets, net	<u>39,901,731</u>	<u>(631,992)</u>	<u>(1,965)</u>	<u>39,267,774</u>
Total capital assets, net	<u>\$ 40,920,858</u>	<u>\$ 2,695,388</u>	<u>\$ (1,347,649)</u>	<u>\$ 42,268,597</u>

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 149,929
Police	171,286
Fire	112,290
Public works	341,811
Parks and recreation	243,796
Codes enforcement	1,489
GIS/Surveying	18,689
Tourism	49,793
Total depreciation expense	<u>\$1,089,083</u>

5. CONSTRUCTION IN PROGRESS

The City is in progress on the following projects:

	June 30, 2015
Business-Type Activities	
Dixie Park Conversion	\$ 71,064
Clay Drive/Woodford Avenue Rehab	13,117
Lagoon Expansion	194,787
Chestnut Street Watertank	128,578
Lewis Street Substation Conversion/Upgrade	1,379,741
Collection System Flow Monitoring System	22,363
Reservoir - Raw Water Source Study	926,931
Total construction in progress	<u>\$ 2,736,581</u>
Governmental Activities	
Salt-bin Expansion	\$ 5,246
Wayfinding Project	115,552
Ellipse Street Shared Use Path	28,383
Scaffold Cane Bike Trail	3,843
Municipal Center	123,035
Stadium Renovation	17,847
Total construction in progress	<u>\$ 293,906</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

6. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT

BONDS AND NOTES PAYABLE

On January 1, 2005, the City of Berea issued \$16,445,000 of Series 2005-A Combined Utilities Revenue Bonds and \$3,740,000 of Series 2005-B Combined Utilities Revenue Bonds to fund the purchase of the Berea College water and electric utilities. The Series 2005-A Bonds bear interest of 3-4.375%, 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, not to exceed \$5,000,000, with the Kentucky Infrastructure Authority (KIA) for a federally assisted Wastewater Revolving Loan Fund Program Fund A loan for the improvement of the wastewater system. As of June 30, 2015, the City had a balance of \$2,874,262 on the loan. Interest payments began within six months from the first draw of funds at a rate of 1%, and full principal and interest payments commenced within one year of initiation of operation. The loan calls for a \$250,000 repairs and maintenance reserve.

On January 1, 2009, the City of Berea entered into a loan assistance agreement, not to exceed \$5,000,000, with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. As of June 30, 2015, the City had a balance of \$3,960,331 on the loan. The note bears interest at a rate of 1% and principal and interest payments are due in December and June of each fiscal year. The loan calls for a \$100,000 repairs and maintenance reserve.

On April 11, 2013, the City issued \$9,520,000 of Utility System Refunding Revenue Bonds, Series 2013. The proceeds were used to partially advance refund previously issued Utility System Revenue Bonds, Series 2005-A. The net proceeds of \$9,575,192 (after payment of underwriting fees, insurance and other issuance costs) were used to fund the escrow account. The escrow account was used to purchase US government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the 2005-A Series bonds. As a result, a portion of the 2005-A Series bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. The new issue will reduce debt service payments by \$675,126 and has a net economic gain of \$600,693. The defeased bonds outstanding at June 30, 2015, were \$8,865,000. As of June 30, 2015, the City had a balance of \$9,300,000 on the Series 2013 Bonds. The Series 2013 Bonds bear interest of 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, 2014	Additions	Deletions	June 30, 2015
Revenue bonds payable	\$ 13,450,000	\$ -	\$ 1,040,000	\$ 12,410,000
Notes payable	7,315,675	-	481,082	6,834,593
Net pension liability	1,985,862	-	60,615	1,925,247
Compensated absences	<u>184,082</u>	<u>27,653</u>	<u>-</u>	<u>211,735</u>
Total debt outstanding	<u>\$ 22,935,619</u>	<u>\$ 27,653</u>	<u>\$ 1,581,697</u>	<u>\$ 21,381,575</u>
Less current portion of:				
Revenue bonds				\$ 1,080,000
Notes payable				485,904
Unamortized premium				<u>17,270</u>
Current portion				<u>1,583,174</u>
Add unamortized premium				<u>172,706</u>
Total long term obligation				<u>\$ 19,971,107</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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

BONDS AND NOTES PAYABLE, continued

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2015:

	Principal	Interest	Service Fee	Total
2016	\$ 1,565,904	\$ 307,966	\$ 15,377	\$ 1,889,247
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	1,740,684	250,998	10,938	2,002,620
2021-25	9,205,487	732,275	37,401	9,975,163
2026-30	1,612,843	46,017	11,401	1,670,261
2031	<u>137,540</u>	<u>688</u>	<u>172</u>	<u>138,400</u>
Total	<u>\$ 19,244,593</u>	<u>\$ 2,326,155</u>	<u>\$ 114,818</u>	<u>\$ 21,685,566</u>

COMPLIANCE WITH RESERVE REQUIREMENTS

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

Depreciation Fund – The bond ordinance requires the creation of a depreciation fund that shall be available and shall be utilized to make repairs and replacements to the system and to pay the costs of constructing additions, extensions, betterments, and improvements to the System which will either increase income and revenues or provide a higher degree of service. There are no required monthly deposits or balance to maintain in the depreciation fund account. The KIA loans call for the creation of a repairs and maintenance reserve of \$350,000. At June 30, 2015, the depreciation fund had a balance of \$1,362,069.

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, 2015, the debt service fund had a balance of \$874,848.

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:

- 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 \$1,859 at June 30, 2015 to be paid out January 2017.

June 30,	
2016	\$ 1,553
2017	<u>306</u>
Total lease payable	<u>\$ 1,859</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

7. GOVERNMENTAL ACTIVITIES - LONG TERM DEBT (CONTINUED)

LEASES PAYABLE, Continued

2. **Lease Agreement – Tolle Building** – The City entered into a lease agreement with a local bank on June 29, 2015, to finance the acquisition of 633 Chestnut Street (known as the Tolle Building and 137/139 North Broadway). The lease bears interest at a rate of 2.65% and is due in semi-annual payments payable on December 1 and June 1 of each fiscal year. The lease is scheduled to be paid out on June 1, 2025, through a balloon payment. The balance of the lease at June 30, 2015 was \$1,290,000.

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
2016	\$ 314,616	\$ 51,166	\$ 365,782
2017	323,148	44,184	367,332
2018	329,785	34,034	363,819
2019	76,780	27,831	104,611
2020	78,828	25,783	104,611
2021-25	<u>913,702</u>	<u>96,230</u>	<u>1,009,932</u>
Total	<u>\$ 2,036,859</u>	<u>\$ 279,228</u>	<u>\$ 2,316,087</u>

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

	June 30, 2014	Additions	Deletions	June 30, 2015
Leases payable - copier	\$ 3,412	\$ -	\$ 1,553	\$ 1,859
Leases payable – building	-	1,290,000	-	1,290,000
Park bonds payable	980,000	-	235,000	745,000
Net pension liability	5,483,853	-	167,385	5,316,468
Compensated absences	<u>665,133</u>	<u>26,827</u>	<u>-</u>	<u>691,960</u>
Total debt outstanding	<u>\$ 7,132,398</u>	<u>\$ 1,316,827</u>	<u>\$ 403,938</u>	<u>\$ 8,045,287</u>
Less current portion of:				
Leases payable				\$ 74,616
Park bonds				<u>240,000</u>
Current portion				<u>314,616</u>
Total long term obligation				<u>\$ 7,730,671</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

8. CONDUIT DEBT

In December 2010, the City Council authorized issuance of Industrial Building Revenue Bonds totaling \$7,500,000 for the purpose of assisting Berea College in the refinancing of certain outstanding industrial building and educational building revenue bonds that were issued for the acquisition, construction, renovation and equipping of an educational building within the City. The bonds are secured by various assets of the borrower. The amount of bonds outstanding at June 30, 2015 is not readily available.

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

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

9. TRANSFERS

The following transfers were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 25,000
Menelaus Pike Fund	15,000	-
Berea Craft Festival Fund	<u>10,000</u>	<u>-</u>
Total	<u>\$ 25,000</u>	<u>\$ 25,000</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.
- A transfer to the Berea Craft Festival Fund was made to cover expenses prior to the receipt of revenue.

10. RETIREMENT PLAN

CERS

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

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

10. RETIREMENT PLAN (CONTINUED)

Contributions – For the year ended June 30, 2015, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2015, participating employers contributed 17.67% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The City contributed \$687,771 for the year ended June 30, 2015, or 100% of the required contribution.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the City reported a liability of \$7,241,715 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was .22 percent, which was equal to its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$418,400. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	646,400
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	687,771	-
Total	<u>\$ 687,771</u>	<u>\$ 646,400</u>

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

10. RETIREMENT PLAN (CONTINUED)

The \$687,771 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2016	\$ (161,600)
2017	(161,600)
2018	(161,600)
2019	(161,600)

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.75%, net of Plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005-June 30, 2008.

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

10. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.75%	\$ 9,528,886
Current discount rate	7.75%	\$ 7,241,715
1% increase	8.75%	\$ 5,219,906

Payable to the Pension Plan – At June 30, 2015, the City reported a payable of \$117,971 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

10. RETIREMENT PLAN (CONTINUED)

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 48 participants in the 457(b) plan and 11 participants in the 401(k) plan. Employees can contribute 100% of includible compensation up to \$18,000 and an additional \$5,500 if 50 or older for calendar year 2015. During the fiscal year employees contributed \$82,032 to the 457(b) plan and \$14,050 to the 401(k) plan.

11. PROPERTY TAX RATES AND CALENDAR

Property taxes for fiscal year 2015 were levied in November 2014 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 10.1 cents per one hundred dollars of assessed value. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Date Per K.R.S. 134.015
1. Due date for payment, 2% discount	November 30
2. Face value payment period	December 1 – December 31
3. Past due date, 10% penalty	January 1
4. Interest charge	12% per annum from Jan 1

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

12. RISK MANAGEMENT

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

CITY OF BERE, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

13. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 68

During 2015 the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which 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, Financial Reporting for Pension Plans.

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires 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. In addition, GASB requires Statement 68 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

	2015
<u>Governmental Activities</u>	
Net position, at beginning of year	\$ 27,569,995
Beginning net pension liability	<u>(5,483,853)</u>
Net position, at beginning of year, as restated	<u>\$ 22,086,142</u>
 <u>Berea Municipal Utilities</u>	
Net position, at beginning of year	\$ 31,862,909
Beginning net pension liability	<u>(1,985,862)</u>
Net position, at beginning of year, as restated	<u>\$ 29,877,047</u>
 Total Governmental and Business-Type Activities	 <u>\$ 51,963,189</u>

SUPPLEMENTAL INFORMATION

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
General property taxes	\$ 620,000	\$ 620,000	\$ 674,016	\$ 54,016
State assessment property taxes	7,000	7,000	12,668	5,668
In lieu of property tax	9,300	9,300	21,765	12,465
Delinquent property taxes	10,000	10,000	10,273	273
Bank deposit taxes	56,500	53,290	58,312	5,022
Motor vehicle taxes	40,000	40,000	50,729	10,729
	<u>742,800</u>	<u>739,590</u>	<u>827,763</u>	<u>88,173</u>
LICENSES, PERMITS, BILLINGS				
Occupational license fees				
Insurance	650,000	650,000	892,739	242,739
Employee withholding	4,800,000	4,900,000	6,156,928	1,256,928
Net profits	350,000	450,000	840,367	390,367
Individual	15,000	15,000	40,510	25,510
Business	7,000	13,000	19,310	6,310
Utility franchise fees	920,000	920,000	1,163,899	243,899
Building permits	32,000	36,000	92,144	56,144
Electric permits	25,000	25,000	29,784	4,784
Burning permits	-	-	-	-
Street cut permits	500	500	400	(100)
	<u>6,799,500</u>	<u>7,009,500</u>	<u>9,236,081</u>	<u>2,226,581</u>
CHARGES FOR SERVICE				
Court costs & fees	26,000	26,000	21,944	(4,056)
Accident reports	2,000	2,000	4,060	2,060
Codes - plat review fee	2,000	2,000	3,980	1,980
GIS mapping fees	-	-	26	26
Police special services	2,800	2,800	13,350	10,550
Demolition cleanup	500	500	286	(214)
Parks concessions	17,000	17,000	15,534	(1,466)
Pool concessions	25,000	25,000	21,698	(3,302)
Swimming pool fees	57,000	57,000	53,623	(3,377)
Softball fees	-	-	800	800
Miscellaneous	1,300	1,300	1,819	519
	<u>133,600</u>	<u>133,600</u>	<u>137,120</u>	<u>3,520</u>

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
FINES AND FORFEITS				
Fingerprint charges	\$ 900	\$ 900	\$ 920	\$ 20
Court restitution	-	40	149	109
Codes violations	700	700	2,967	2,267
Penalties and interest	9,500	9,500	27,421	17,921
Parking fines	6,000	7,000	10,935	3,935
	<u>17,100</u>	<u>18,140</u>	<u>42,392</u>	<u>24,252</u>
INTERGOVERNMENTAL REVENUES				
County school-police contract	70,000	70,000	72,677	2,677
Madison County grants	53,000	53,000	53,000	-
Other grants	960,000	960,000	627,930	(332,070)
Volunteer fire state aid	-	8,250	8,250	-
Police incentive pay	95,000	95,000	111,904	16,904
Fire incentive pay	66,000	66,000	69,248	3,248
	<u>1,244,000</u>	<u>1,252,250</u>	<u>943,009</u>	<u>(309,241)</u>
OTHER REVENUE				
Rental income	73,575	72,175	84,148	11,973
Interest income	20,500	20,500	36,191	15,691
Insurance proceeds	-	45,467	53,210	7,743
Miscellaneous	5,000	5,000	14,334	9,334
	<u>99,075</u>	<u>143,142</u>	<u>187,883</u>	<u>44,741</u>
TOTAL REVENUE	<u>\$ 9,036,075</u>	<u>\$ 9,296,222</u>	<u>\$ 11,374,248</u>	<u>\$ 2,078,026</u>

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
ADMINISTRATION				
General Government				
Personnel	\$ 47,711	\$ 47,711	\$ 45,653	\$ (2,058)
Utilities	120,460	123,460	123,911	451
Materials and supplies	19,900	16,900	15,917	(983)
Services and support	447,900	434,884	367,332	(67,552)
Other expenditures	15,600	16,300	6,591	(9,709)
Administration				
Personnel	268,900	268,900	263,329	(5,571)
Materials and supplies	38,500	48,800	38,548	(10,252)
Services and support	135,000	151,000	153,401	2,401
Other expenditures	10,800	14,908	13,339	(1,569)
City Council				
Personnel	56,840	56,840	54,256	(2,584)
Services and support	61,600	61,600	59,196	(2,404)
Other expenditures	249,300	299,300	229,592	(69,708)
Finance Office				
Personnel	296,000	296,000	286,713	(9,287)
Materials and supplies	19,000	19,000	8,368	(10,632)
Services and support	92,000	92,000	86,817	(5,183)
Other expenditures	17,000	18,000	13,965	(4,035)
Total Administration	<u>1,896,511</u>	<u>1,965,603</u>	<u>1,766,928</u>	<u>(198,675)</u>
POLICE				
Personnel	2,205,000	2,213,000	2,127,915	(85,085)
Utilities	15,500	15,500	16,360	860
Materials and supplies	217,000	210,000	133,756	(76,244)
Services and support	95,500	102,500	62,631	(39,869)
Other expenditures	56,000	66,000	61,727	(4,273)
Total Police Department	<u>2,589,000</u>	<u>2,607,000</u>	<u>2,402,389</u>	<u>(204,611)</u>
FIRE				
Personnel	1,265,000	1,265,000	1,179,371	(85,629)
Utilities	13,700	13,700	10,426	(3,274)
Materials and supplies	89,500	89,500	47,773	(41,727)
Services and support	74,100	74,100	41,272	(32,828)
Other expenditures	11,500	11,500	6,147	(5,353)
Total Fire Department	<u>1,453,800</u>	<u>1,453,800</u>	<u>1,284,989</u>	<u>(168,811)</u>

CITY OF BERA, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
STREETS				
Personnel	\$ 998,611	\$ 998,611	\$ 913,842	\$ (84,769)
Utilities	115,250	116,250	115,483	(767)
Materials and supplies	423,550	373,800	368,177	(5,623)
Services and support	322,950	322,950	243,029	(79,921)
Other expenditures	<u>43,500</u>	<u>43,500</u>	<u>2,934</u>	<u>(40,566)</u>
Total Street Department	<u>1,903,861</u>	<u>1,855,111</u>	<u>1,643,465</u>	<u>(211,646)</u>
CODES ENFORCEMENT				
Personnel	275,555	280,005	278,823	(1,182)
Materials and supplies	21,400	21,300	12,814	(8,486)
Services and support	46,300	43,400	23,234	(20,166)
Other expenditures	<u>8,700</u>	<u>9,200</u>	<u>10,372</u>	<u>1,172</u>
Total Codes Enforcement	<u>351,955</u>	<u>353,905</u>	<u>325,243</u>	<u>(28,662)</u>
PARKS AND RECREATION				
Parks and Recreation				
Personnel	295,418	295,418	226,612	(68,806)
Utilities	85,700	91,600	90,467	(1,133)
Materials and supplies	64,200	61,700	34,359	(27,341)
Services and support	49,800	50,800	37,438	(13,362)
Other expenditures	<u>32,200</u>	<u>32,200</u>	<u>19,205</u>	<u>(12,995)</u>
Pool				
Personnel	83,700	83,700	67,783	(15,917)
Utilities	14,900	14,900	13,706	(1,194)
Materials and supplies	50,650	50,650	38,284	(12,366)
Services and support	34,500	34,500	24,283	(10,217)
Other expenditures	<u>11,000</u>	<u>11,000</u>	<u>4,776</u>	<u>(6,224)</u>
Intergenerational Center				
Utilities	18,700	18,700	15,490	(3,210)
Services and support	<u>13,000</u>	<u>13,000</u>	<u>12,530</u>	<u>(470)</u>
Total Parks and Recreation	<u>753,768</u>	<u>758,168</u>	<u>584,933</u>	<u>(173,235)</u>

**CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON GENERAL FUND
for the year ended June 30, 2015**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
GIS/SURVEYING				
GIS/Land Surveying				
Personnel	\$ 126,680	\$ 126,680	\$ 115,708	\$ (10,972)
Materials and supplies	10,200	13,700	16,417	2,717
Services and support	12,150	12,150	5,860	(6,290)
Other expenditures	<u>4,500</u>	<u>5,000</u>	<u>1,282</u>	<u>(3,718)</u>
Total GIS/Surveying	<u>153,530</u>	<u>157,530</u>	<u>139,267</u>	<u>(18,263)</u>
BUSINESS DEVELOPMENT				
Business Development				
Personnel	76,800	76,800	35,088	(41,712)
Materials and supplies	5,500	5,500	408	(5,092)
Services and support	8,000	6,500	65	(6,435)
Other expenditures	<u>8,500</u>	<u>8,500</u>	<u>1,173</u>	<u>(7,327)</u>
Total Business Development	<u>98,800</u>	<u>97,300</u>	<u>36,734</u>	<u>(60,566)</u>
CAPITAL OUTLAY	<u>3,212,500</u>	<u>3,594,751</u>	<u>3,039,156</u>	<u>(555,595)</u>
DEBT SERVICE	<u>262,381</u>	<u>262,381</u>	<u>263,933</u>	<u>1,552</u>
TOTAL EXPENDITURES	<u>\$ 12,676,106</u>	<u>\$ 13,105,549</u>	<u>\$ 11,487,037</u>	<u>\$ (1,618,512)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	1,000	1,000	4,390	3,390
Financing proceeds	-	-	1,290,000	1,290,000
Transfers in (out)	<u>(74,065)</u>	<u>(74,065)</u>	<u>(25,000)</u>	<u>49,065</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(73,065)</u>	<u>(73,065)</u>	<u>1,269,390</u>	<u>1,342,455</u>
NET CHANGE IN FUND BALANCE	<u>\$ (3,713,096)</u>	<u>\$ (3,882,392)</u>	<u>\$ 1,156,601</u>	<u>\$ 5,038,993</u>

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

**CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL
BUDGETARY COMPARISON TOURISM FUND
for the year ended June 30, 2015**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
MUNICIPAL TAXATION				
Transient room tax	\$ 120,000	\$ 120,000	\$ 167,137	\$ 47,137
Restaurant tax	<u>920,000</u>	<u>920,000</u>	<u>995,363</u>	<u>75,363</u>
	<u>1,040,000</u>	<u>1,040,000</u>	<u>1,162,500</u>	<u>122,500</u>
INTERGOVERNMENTAL				
Grant revenues	<u>25,760</u>	<u>15,000</u>	<u>7,500</u>	<u>(7,500)</u>
CHARGES FOR SERVICE				
Workshop fees	<u>120,750</u>	<u>120,750</u>	<u>91,839</u>	<u>(28,911)</u>
OTHER REVENUE				
Miscellaneous revenue	<u>-</u>	<u>16,698</u>	<u>44,416</u>	<u>27,718</u>
TOTAL REVENUE	<u>\$ 1,186,510</u>	<u>\$ 1,192,448</u>	<u>\$ 1,306,255</u>	<u>\$ 113,807</u>
TOURISM				
Personnel	355,327	357,327	289,964	(67,363)
Utilities	26,870	31,270	23,695	(7,575)
Materials and supplies	23,700	23,700	17,568	(6,132)
Services and support	369,800	413,800	400,287	(13,513)
Other expenditures	<u>513,980</u>	<u>526,000</u>	<u>423,991</u>	<u>(102,009)</u>
	<u>1,289,677</u>	<u>1,352,097</u>	<u>1,155,505</u>	<u>(196,592)</u>
CAPITAL OUTLAY	<u>200,000</u>	<u>1,490,000</u>	<u>42,467</u>	<u>(1,447,533)</u>
DEBT SERVICE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 1,489,677</u>	<u>\$ 2,842,097</u>	<u>\$ 1,197,972</u>	<u>\$ (1,644,125)</u>
OTHER FINANCING SOURCES (USES)				
Financing proceeds	-	1,290,000	-	(1,290,000)
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>1,290,000</u>	<u>-</u>	<u>(1,290,000)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (303,167)</u>	<u>\$ (359,649)</u>	<u>\$ 108,283</u>	<u>\$ 467,932</u>

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

CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Two Fiscal Years

	2014	2015
City's proportion of the net pension liability	0.22%	0.22%
City's proportionate share of the net pension liability (asset)	\$ 8,187,448	\$ 7,241,715
City's covered employee payroll	\$ 5,146,587	\$ 5,223,674
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	159.09%	138.63%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%

Notes:

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

**CITY OF BERE, KENTUCKY
REQUIRED SUPPLEMENTAL
SCHEDULE OF CONTRIBUTIONS
Last Three Fiscal Years**

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

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

CITY OF BERA, KENTUCKY
BUDGETARY COMPARISON
PROPRIETARY FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
BEREA MUNICIPAL UTILITIES				
Administration				
Personnel	\$ 651,300	\$ 651,300	\$ 608,024	\$ (43,276)
Utilities	75,300	75,300	73,819	(1,481)
Materials and supplies	49,800	52,300	46,007	(6,293)
Services and support	388,000	400,000	337,329	(62,671)
Other expenses	<u>42,750</u>	<u>42,750</u>	<u>18,613</u>	<u>(24,137)</u>
	<u>1,207,150</u>	<u>1,221,650</u>	<u>1,083,792</u>	<u>(137,858)</u>
Electric				
Personnel	509,300	509,300	493,453	(15,847)
Utilities	3,050	3,050	3,378	328
Materials and supplies	55,300	60,300	46,301	(13,999)
Services and support	10,166,800	10,201,300	8,904,095	(1,297,205)
Other expenses	<u>118,500</u>	<u>127,500</u>	<u>141,522</u>	<u>14,022</u>
	<u>10,852,950</u>	<u>10,901,450</u>	<u>9,588,749</u>	<u>(1,312,701)</u>
Water				
Personnel	409,500	429,750	370,067	(59,683)
Utilities	225,700	225,700	264,696	38,996
Materials and supplies	157,300	157,300	163,389	6,089
Services and support	358,000	358,000	325,292	(32,708)
Other expenses	<u>35,000</u>	<u>37,000</u>	<u>22,307</u>	<u>(14,693)</u>
	<u>1,185,500</u>	<u>1,207,750</u>	<u>1,145,751</u>	<u>(61,999)</u>
Sewer				
Personnel	528,200	528,200	485,944	(42,256)
Utilities	206,500	206,500	199,107	(7,393)
Materials and supplies	82,600	87,600	84,664	(2,936)
Services and support	358,800	428,800	338,740	(90,060)
Other expenses	<u>27,800</u>	<u>29,000</u>	<u>25,390</u>	<u>(3,610)</u>
	<u>1,203,900</u>	<u>1,280,100</u>	<u>1,133,845</u>	<u>(146,255)</u>
Total Expenses	<u>\$ 14,449,500</u>	<u>\$ 14,610,950</u>	<u>\$ 12,952,137</u>	<u>\$ (1,658,813)</u>

CITY OF BERA, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2015

	Municipal Road Aid Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2015 Total
ASSETS								
Cash and cash equivalents	\$ 632,962	\$ 17,794	\$ 54,216	\$ -	\$ 92,705	29,590	\$ 19,562	\$ 846,829
Investments	-	102,962	-	-	-	-	-	102,962
Accounts receivable	25,358	-	-	2,313	-	-	24,758	52,429
Interest receivable	-	74	-	-	-	-	-	74
Other assets	-	-	-	-	-	10,006	-	10,006
Due from other fund	-	-	-	-	-	-	-	-
Total assets	<u>\$ 658,320</u>	<u>\$ 120,830</u>	<u>\$ 54,216</u>	<u>\$ 2,313</u>	<u>\$ 92,705</u>	<u>\$ 39,596</u>	<u>\$ 44,320</u>	<u>\$ 1,012,300</u>
LIABILITIES AND FUND BALANCE								
Liabilities								
Accounts payable	\$ 822	\$ 63	\$ -	\$ 2,313	\$ -	\$ 826	\$ 34,787	\$ 38,811
Accrued payroll	-	-	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	18,310	-	18,310
Due to other fund	-	-	-	-	-	-	9,232	9,232
Total liabilities	822	63	-	2,313	-	19,136	44,019	66,353
Fund balance	<u>657,498</u>	<u>120,767</u>	<u>54,216</u>	<u>-</u>	<u>92,705</u>	<u>20,460</u>	<u>301</u>	<u>945,947</u>
Total liabilities and fund balances	<u>\$ 658,320</u>	<u>\$ 120,830</u>	<u>\$ 54,216</u>	<u>\$ 2,313</u>	<u>\$ 92,705</u>	<u>\$ 39,596</u>	<u>\$ 44,320</u>	<u>\$ 1,012,300</u>

CITY OF BERA, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2015

	Municipal Road Aid Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2015 Total
REVENUES								
Intergovernmental revenues	\$ 326,934	\$ -	\$ 74,192	\$ 68,453	\$ 20,073	\$ -	\$ 78,582	\$ 568,234
Charges for services	-	-	-	-	-	67,067	-	67,067
Other revenues	436	14,169	15	-	55	20	1	14,696
	<u>327,370</u>	<u>14,169</u>	<u>74,207</u>	<u>68,453</u>	<u>20,128</u>	<u>67,087</u>	<u>78,583</u>	<u>649,997</u>
EXPENDITURES								
Current								
General administration	-	1	-	-	-	-	-	1
Police department	-	-	-	-	4,872	-	-	4,872
Street department	309,851	-	-	-	-	-	-	309,851
Tourism	-	-	-	-	-	56,629	-	56,629
State Contracts	-	-	74,192	68,453	-	-	78,582	221,227
Capital outlay	25,556	9,626	-	-	-	-	-	35,182
Debt service	-	-	-	-	-	-	-	-
	<u>335,407</u>	<u>9,627</u>	<u>74,192</u>	<u>68,453</u>	<u>4,872</u>	<u>56,629</u>	<u>78,582</u>	<u>627,762</u>
Excess revenues over (under) expenditures before other sources (uses)	(8,037)	4,542	15	-	15,256	10,458	1	22,235
Other financing sources								
Proceeds from sale of assets	-	-	-	-	-	-	-	-
Transfers from (to) other funds	-	-	15,000	-	-	10,000	-	25,000
Excess revenues and other sources over (under) expenditures	(8,037)	4,542	15,015	-	15,256	20,458	1	47,235
Fund balances, July 1, 2014	665,535	116,225	39,201	-	77,449	2	300	898,712
FUND BALANCES- JUNE 30, 2015	<u>\$ 657,498</u>	<u>\$ 120,767</u>	<u>\$ 54,216</u>	<u>\$ -</u>	<u>\$ 92,705</u>	<u>\$ 20,460</u>	<u>\$ 301</u>	<u>\$ 945,947</u>



**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, 2015, 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 29, 2015.

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*.

Purpose of this Report

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

RFH

RFH, PLLC

October 29, 2015

CITY OF BERE A KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015

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	\$ 73,843
Community Development Block Grant/State's Program (Note 1)	14.228	11-082	497,683
Department of Transportation			
State and Community Highway Safety Cluster (Note 2)	20.600	PT 14-02	1,864
United States Department of Agriculture			
Watershed Protection and Flood Prevention	10.904	n/a	420,274
National Endowment for the Arts			
Promotion of the Arts	45.024	n/a	7,500
U.S. Department of Justice			
Bulletproof Vest Partnership Program	16.607	n/a	2,048
Executive Office of the President			
High Intensity Drug Trafficking Areas Program	95.001	n/a	<u>5,943</u>
Total Federal Financial Assistance			<u>\$ 1,009,155</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.



**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, 2015. 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, 2015.

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.

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.

RFH

RFH, PLLC
October 29, 2015

CITY OF BERE, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2015

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes 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:

Unmodified 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