

**CITY OF BERA**  
**Berea, Kentucky**



**FINANCIAL STATEMENTS**  
**June 30, 2016**

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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, 2016. Please read the following in conjunction with the auditors' report on page 12 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

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2016 Total Primary Government</b>	<b>2015 Total Primary Government</b>
Current Assets	\$ 12,357,899	\$ 11,643,071	\$ 24,000,970	\$ 22,939,314
Capital Assets	23,670,239	43,064,697	66,734,936	63,886,883
Other Noncurrent Assets	5,467	2,159,771	2,165,238	3,114,153
Total Assets	<u>36,033,605</u>	<u>56,867,539</u>	<u>92,901,144</u>	<u>89,940,350</u>
Deferred Outflows of Resources	<u>1,399,331</u>	<u>1,254,489</u>	<u>2,653,820</u>	<u>1,518,312</u>
Total Assets and Deferred Outflow of Resources	<u><u>37,432,936</u></u>	<u><u>58,122,028</u></u>	<u><u>95,554,964</u></u>	<u><u>91,458,662</u></u>
Current Liabilities	1,558,414	4,581,040	6,139,454	5,711,502
Long-term Liabilities	9,220,505	19,005,820	28,226,325	27,701,778
Total Liabilities	<u>10,778,919</u>	<u>23,586,860</u>	<u>34,365,779</u>	<u>33,413,280</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>646,400</u>
Net Position:				
Invested in Capital Assets Net of Related Debt	21,947,996	25,230,573	47,178,569	42,432,725
Restricted	566,355	1,481,699	2,048,054	2,987,120
Unrestricted	4,139,666	7,822,896	11,962,562	11,979,137
Total Net Position	<u><u>\$ 26,654,017</u></u>	<u><u>\$ 34,535,168</u></u>	<u><u>\$ 61,189,185</u></u>	<u><u>\$ 57,398,982</u></u>
Total Liabilities and Net Position	<u><u>37,432,936</u></u>	<u><u>58,122,028</u></u>	<u><u>95,554,964</u></u>	<u><u>91,458,662</u></u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Berea exceeded liabilities by \$61,189,185. The City's total assets increased by over \$2,960,000. This increase included a \$948,000 increase in investments in governmental activities, including \$600,000 that was reserved for the Capital Sinking Fund established under the FY13-14 budget. Additionally, within the business-type activities, capital assets grew as a result of a \$3 million upgrade to the Lewis Street Substation.

Current year deferred outflows of resources increased by \$1.1 million while deferred inflows of resources decreased by \$646,000. Deferred outflows of resources primarily results from the City's contributions to the net pension liability for the following year, as well as changes in the net pension liability that will be amortized in future years as pension expense.

The City's total liabilities increased by \$952,499 due to a \$2.5 million increase in net pension liability which was offset by principal payments on the City's bonds and notes. This resulted in an overall increase in net position of \$3,790,203. However, 125 percent of the increase reflects the City's investment in capital assets. Although the investments in capital assets are reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources. An additional \$2,048,054 of the City's net assets represents resources that are subject to external restrictions on how they must be used. The remaining balance of \$11,962,562 is unrestricted. The City's unrestricted portions of total net position remained relatively unchanged.

**Table 2**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2016 Total Primary Government</b>	<b>2015 Total Primary Government</b>
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 320,338	\$ 17,430,903	\$ 17,751,241	\$ 17,750,299
Operating Grants & Contributions	893,946	-	893,946	1,002,972
Capital Grants & Contributions	1,528,500	209,503	1,738,003	1,696,503
General Revenue				
Taxes	2,103,044	-	2,103,044	1,990,263
License fees	9,554,655	-	9,554,655	9,113,753
Permits	178,167	-	178,167	122,328
Investment Earnings	51,044	48,606	99,650	86,685
Other Revenues	294,132	-	294,132	248,288
<b>Total Revenues</b>	<b>14,923,826</b>	<b>17,689,012</b>	<b>32,612,838</b>	<b>32,011,091</b>
<u>Program Expenses</u>				
General Government	2,162,112		2,162,112	1,893,555
Public Safety - Police	3,207,885		3,207,885	2,503,971
Public Safety - Fire	1,623,964		1,623,964	1,368,361
Public Works	2,608,130		2,608,130	2,278,673
Codes enforcement	379,396		379,396	320,862
Parks and Recreation	878,772		878,772	830,394
GIS/Surveying	190,254		190,254	151,202
Business Development	59,970		59,970	27,156
Tourism	1,252,360		1,252,360	1,257,520
State Contracts	120,452		120,452	221,227
Interest on Long-term Debt	50,547		50,547	24,217
Utilities	-	16,040,711	16,040,711	15,677,326
<b>Total Program Expenses</b>	<b>12,533,842</b>	<b>16,040,711</b>	<b>28,574,553</b>	<b>26,554,464</b>
Gain/(Loss) on Sale of Property	(248,082)		(248,082)	(20,834)
<b>Change in Net Position</b>	<b>\$ 2,141,902</b>	<b>\$ 1,648,301</b>	<b>\$ 3,790,203</b>	<b>\$ 5,435,793</b>

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

Governmental activities increased the City's total net position by \$2,141,902 which is a 12 percent decrease over the prior year's change in net position from governmental activities. This decrease, however, is a result of changes in net pension liability which are recognized in the current year's expenses. See Note 10 for additional information regarding the net pension liability.

This year's increase in net position from governmental activities accounts for 57 percent of the total growth in the net position of the City as a whole. This results from an overall increase in governmental revenue of \$1,593,326 (12%) which offsets the majority of the \$1,656,704 (15%) increase in expenses. Much of the increase in total governmental revenue is due to the acceptance of several city streets valued at \$1.5 million. These streets are donated to the city by developers and are recognized as contributed capital.

Business-type activities increased the City's net position by \$1,648,301 compared to the prior year's increase in net position of \$3,009,820. Charges for services showed a slight decrease of \$23,000. There were no rate increases to any of the services during FY16 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 increased by \$363,385 (2%). This increase is primarily due to \$234,084 increase in pension expense. As stated earlier, much of the increase in pension expense is related to changes in the net pension liability. Much of this increase is a noncash expenditure. Additionally, there was a \$113,000 (5%) increase in depreciation expense, which is also a noncash expense.

## **GOVERNMENTAL ACTIVITIES**

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

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

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

**Table 3**

	<b>2016</b>	<b>2015</b>
Revenues		
Taxes	\$ 2,103,044	\$ 1,990,263
Licenses and permits	9,732,822	9,236,081
Charges for Services	320,338	296,026
Fines & Forfeits	62,260	42,392
Intergovernmental	893,946	1,518,743
Other Revenues	282,915	246,995
Total Revenues	<u>13,395,325</u>	<u>13,330,500</u>
Expenditures		
General Government	1,965,795	1,766,929
Public Safety - Police	2,459,395	2,407,261
Public Safety - Fire	1,412,376	1,284,989
Public Works	2,136,367	1,953,316
Codes Enforcement	363,312	325,243
Parks and Recreation	622,293	584,933
GIS/Surveying	168,716	139,267
Business Development	55,013	36,734
Tourism	1,199,816	1,212,134
State Contracts	120,452	221,227
Capital Outlay	1,940,906	3,116,805
Debt Service	365,782	263,933
Total Expenditures	<u>12,810,223</u>	<u>13,312,771</u>
Excess revenues over (under) before other sources (uses)	<u>585,102</u>	<u>17,729</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	4,824	4,390
Financing proceeds	<u>1,290,000</u>	<u>1,290,000</u>
Total Other Financing Sources (Uses)	<u>4,824</u>	<u>1,294,390</u>
Net Change in Fund Balance	589,926	1,312,119
Fund balances - beginning	<u>10,902,529</u>	<u>9,590,410</u>
Fund balances - ending	<u>11,492,455</u>	<u>10,902,529</u>

Total fund balance for all governmental funds has increased 5 percent from the prior year. The General Fund's increase in fund balance was \$688,834. Contributions of \$600,000 to the Capital Sinking Fund account for the majority of the increase in fund balance. At year ended June 30, 2016, there was \$1.8 million in the Capital Sinking Fund. Tourism's fund balance decreased by approximately \$40,000 as a result of funding the Wayfinding project, a nonrecurring expenditure. The fund balances for Municipal Road Aid decreased by \$182,000 as funds accumulated from the prior year was used for street resurfacing in the current year.



While total governmental revenues only increased by \$64,825, occupational license fees on payroll grew by \$272,960 (4%), and occupational license fees on net profits increased \$161,130 (19%). Restaurant tax increased by \$46,000 (5%). Utility franchise fees showed a small decrease (\$70,000) as average temperatures were higher during FY16. Capital grants decreased by \$624,797 due to the completion of several infrastructure projects during FY16.

Total governmental expenditures decreased 4 percent from the prior year. The majority of the decrease resulted from the completion of infrastructure projects mentioned above. Excluding capital project, total departmental spending increased \$673,351 (7%). General Government showed a \$198,866 (11%) percent increase resulting from an increase in 911 support, consulting services for the Main Street traffic study, and a one-time expenditure to the volunteer fire department for expansion of their facility. Fire Department expenditures increased by \$127,387 (10%) due to the addition of three new fire fighters at the end of the fiscal year as well as the replacement of aging gear. Public Works expenditures increased by \$183,051 (9%) due to the restructuring of labor positions.

### BUDGET HIGHLIGHTS

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

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

<b>Table 4</b>			
<b>General Fund Revenues</b>			
<b>Budget to Actual</b>			
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Taxes	\$ 777,178	\$ 885,414	\$ 108,236
Licenses, Permits & Billings	7,265,200	9,732,822	2,467,622
Charges for Services	123,725	144,384	20,659
Fines & Forfeitures	22,000	62,260	40,260
Intergovernmental	925,250	489,707	(435,543)
Other Revenue	99,775	190,890	91,115
<b>Total Revenues</b>	<b>\$ 9,213,128</b>	<b>\$ 11,505,477</b>	<b>\$ 2,292,349</b>

**Table 5**  
**General Fund Expenditures**  
**Budget to Actual**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Administration	\$ 2,238,679	\$ 1,963,431	\$ (275,248)
Police	2,678,000	2,457,461	(220,539)
Fire	1,513,800	1,412,376	(101,424)
Public Works	2,047,151	1,680,302	(366,849)
Codes Enforcement	432,925	363,312	(69,613)
Parks & Recreation	728,703	622,293	(106,410)
GIS/Surveying	190,815	168,716	(22,099)
Business Development	88,125	55,013	(33,112)
Capital Outlay	13,446,400	1,677,908	(11,768,492)
Debt Service	<u>255,647</u>	<u>261,688</u>	<u>6,041</u>
Total Expenditures	<u>\$ 23,620,245</u>	<u>\$ 10,662,500</u>	<u>\$ (12,957,745)</u>

The City tends to budget for revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. As a result, the City's revenue exceeded budgeted amounts by \$2,292,349 or 25 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 \$12,957,745 or 55 percent below budgeted amounts. The majority of this difference was based on the construction of the Municipal Center and other capital items or projects that were budgeted for but not purchased during the fiscal year.

### **CAPITAL ASSETS**

The City of Berea's investments in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of June 30, 2016, totals \$66,734,936, a 4% increase from the prior year. Major capital asset transactions during the year include:

- Completion of the Lewis/Oak Street Substation Upgrade and Conversion project with a total project cost of \$3,481,968 over a multi-year period, \$2,102,227 of which was incurred during fiscal year 2016.
- Purchase of new street sweeper for the Public Works Department for \$249,053.
- Replacement of a portion of the roof on the building at 200 Harrison Road at a total cost of \$309,900.
- Completion of upgrades and rehab of the Chestnut Street Watertank with a total project cost of \$173,998 over a multi-year period, \$45,420 of which was incurred during fiscal year 2016.
- Completion of upgrades to the leachate system at the landfill with a total project cost of \$161,480 over a multi-year period, \$90,416 of which was incurred during fiscal year 2016.
- Completion of the Clay/Woodford Avenue Sewer Rehabilitation project with a total project cost of \$153,791 over a multi-year period, \$140,674 of which was incurred during fiscal year 2016.
- Remodel of 302 Chestnut Street for County Clerk operations for a total cost of \$101,302.
- Remodel and garage addition at 108 Parkway for a total cost of \$76,042.
- Expansion and upgrade of city wide network and phone system for a total cost of \$104,984

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

**Table 6**

			<b>2016 Total</b>	<b>2015 Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Primary Government</b>	<b>Primary Government</b>
Land, Buildings & Improvements	\$ 13,456,617	\$ 2,969,017	\$ 16,425,634	\$ 16,089,677
Construction in Progress	1,090,867	1,327,587	2,418,454	3,030,487
Infrastructure/Utility Plant	14,184,378	64,982,879	79,167,257	9,398,517
Vehicles, Equipment & Other	7,755,484	2,445,875	10,201,359	73,538,131
Total Capital Assets	<u>36,487,346</u>	<u>71,725,358</u>	<u>108,212,704</u>	<u>102,056,812</u>
Less Accumulated Depreciation	(12,817,107)	(28,660,661)	(41,477,768)	(38,169,929)
Total Net Capital Assets	<u>\$ 23,670,239</u>	<u>\$ 43,064,697</u>	<u>\$ 66,734,936</u>	<u>\$ 63,886,883</u>

**DEBT**

The City's long term debt at June 30, 2016, totaled \$29,426,862. The City's debt increased by \$595,222 (2%) during the fiscal year. However, the increase in debt is the result of an \$2.5 million increase in net pension liability. City long term debt resulting from leases, bonds and loans actually decreased by \$1,880,000 resulting from principle payments.

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

			<b>2016 Total</b>	<b>2015 Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Primary Government</b>	<b>Primary Government</b>
Leases	\$ 1,217,243	\$ -	\$ 1,217,243	\$ 1,291,859
Bonds Payable	505,000	11,330,000	11,835,000	13,155,000
Loans Payable	-	6,348,689	6,348,689	6,834,593
Net Pension Liability	7,119,435	2,578,153	9,697,588	7,241,715
Compensated Absences	701,975	221,589	923,564	903,695
Total Debt Outstanding	<u>9,543,653</u>	<u>20,478,431</u>	<u>30,022,084</u>	<u>29,426,862</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

With the passage of the FY2017 budget the Berea City Council approved the borrowing of \$10,000,000, for the construction of a Fire, Police and Municipal building. The funds for the construction of the new facility will come from a Rural Development Loan with a payback period of forty years at a fixed interest rate of 3.15%. For the first time in the history of Berea the Police department will operate in a facility designed to complement their work. The Fire Department will inhabit a modern space that will accommodate modern living space and a training center that will be shared with the Police Department.

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 industrial and commercial economy of the City of Berea remains strong. Commercial establishments are growing especially in the area of prepared foods. In the past year the City has made itself more marketable to such businesses by passing an alcohol referendum allowing the sale of alcohol by the drink in restaurants seating at least fifty people and sales of prepared foods totaling seventy percent of their revenue. This addition has added a competitive edge to our local establishments.

The City has \$2,280,000 in Fund Balance Reserves representing approximately two month's operating expenses, excluding the purchase of capital equipment. The Capital Sinking fund has been frozen at \$1,800,000 in the 2017 fiscal year. The monies normally committed to this fund have been allocated to the Fire, Police and Municipal building project. Also, monies from this fund were budgeted to pay the City's portion of a Quint fire engine. Monies placed in these two reserve funds are unbudgeted and will require a budget amendment by council before money can be spent. Both are created to strengthen the future financial foundation of the City. Berea's current budget also has \$552,467 in unallocated or unbudgeted funds in addition to the two funds discussed above.

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 - 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 FY2017 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 implemented removes local governments from recruiting highly talented employees. In addition, the statement of an imposed pension liability that is now included on our balance sheet makes our financial outlook appear to be weaker than it actually should be stated.

The cost of infrastructure improvements remains the focus of the Berea Municipal Utilities. The upgrade of the 595 collection system will be the focus of this fiscal year 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 costs. 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 has been completed and new rates for

the water and sewer utilities will go into effect in November 2016. Kentucky Utilities annual increase in rates equaled eleven percent with another increase anticipated in early 2017. Berea's contract with KU ends in May 2019. A contract with AMP Ohio has already been signed and the agreed upon price will provide a savings to the utilities.

The 2017 budget provides more potential spending on infrastructure. Using local monies two miles of our Indian Fort Trail project will be completed at a cost of \$450,000. Two highway projects are included in this year's spending plan. Both road projects are funded by state road funds and their future depends on the release of State funds. These two projects are important as they both improve the access to the industrial and commercial sectors of the City. The two projects are the upgrade of US-25 North and the second phase of the Berea Bypass. In total, these two projects will enhance the transportation infrastructure of our City by \$34,000,000.

With the passage of the FY2017 budget the Berea City Council approved the building of a Fire, Police and Municipal facility. The cost of the structure will be ten million dollars and will take more than seventeen months to complete. From the general fund the budget commits one million-eight hundred thousand dollars to the building project. The remainder of the monies will be supplied by a Rural Development Loan for a period of forty years at a locked in interest rate of 3.125%. The FY2018 budget will be impacted by this project as the furnishing and technology systems will be taken from the general fund in FY2018.

#### **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, 2016, 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, 2016, 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 proprietary budgetary comparison schedules, and combining and nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion proprietary budgetary comparison schedules, and combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Prior-Year Comparative Information*

We have previously audited the City's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated October 4, 2016, 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  
Lexington, Kentucky  
October 4, 2016

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

	Primary Government			2015 Totals
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,644,473	\$ 1,806,889	\$ 4,451,362	\$ 4,215,176
Investments	7,946,605	7,002,084	14,948,689	14,466,530
Receivables (net)	1,749,638	2,452,574	4,202,212	4,183,728
Other receivables	-	375,958	375,958	55,197
Interest receivable	5,604	3,257	8,861	8,677
Other assets	13,888	-	13,888	10,006
Internal balances	(2,309)	2,309	-	-
Total current assets	<u>12,357,899</u>	<u>11,643,071</u>	<u>24,000,970</u>	<u>22,939,314</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	1,481,699	1,481,699	2,236,917
Inventory	-	678,072	678,072	869,034
Capital assets				
Construction in progress	1,090,867	1,327,587	2,418,454	3,030,487
Land and easements	5,241,000	264,242	5,505,242	5,427,232
Land improvements, net	506,559	70,366	576,925	605,084
Buildings and improvements, net	2,940,871	1,933,223	4,874,094	4,834,059
Depreciable infrastructure, net	11,374,701	-	11,374,701	10,228,090
Plant and sewer system, net	-	13,665,803	13,665,803	14,250,360
Plant and electric system, net	-	10,240,149	10,240,149	7,225,719
Plant and water system, net	-	14,598,437	14,598,437	14,961,854
Vehicles and equipment	2,353,461	964,890	3,318,351	3,123,609
Software, net	162,780	-	162,780	200,389
Other assets	5,467	-	5,467	8,202
Total noncurrent assets	<u>23,675,706</u>	<u>45,224,468</u>	<u>68,900,174</u>	<u>67,001,036</u>
Total assets	<u>36,033,605</u>	<u>56,867,539</u>	<u>92,901,144</u>	<u>89,940,350</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - pension	1,399,331	507,002	1,906,333	687,771
Defeasance on refunding	-	747,487	747,487	830,541
Total assets and deferred outflows of resources	<u>\$ 37,432,936</u>	<u>\$ 58,122,028</u>	<u>\$ 95,554,964</u>	<u>\$ 91,458,662</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 652,485	\$ 2,069,210	\$ 2,721,695	\$ 2,650,590
Accrued payroll	481,326	67,162	548,488	255,914
Accrued taxes and other liabilities	3,206	142,281	145,487	163,833
Accrued interest payable	1,368	5,291	6,659	7,683
Unearned revenue	92,269	-	92,269	81,238
Customer deposits	-	669,050	669,050	650,790
Compensated absences	4,612	-	4,612	3,664
Current portion of long-term obligations	323,148	1,628,046	1,951,194	1,897,790
Total current liabilities	<u>1,558,414</u>	<u>4,581,040</u>	<u>6,139,454</u>	<u>5,711,502</u>
Noncurrent liabilities				
Compensated absences	701,975	221,589	923,564	903,695
Noncurrent portion of long-term obligations	1,399,095	16,206,078	17,605,173	19,556,368
Net pension liability	7,119,435	2,578,153	9,697,588	7,241,715
Total noncurrent liabilities	<u>9,220,505</u>	<u>19,005,820</u>	<u>28,226,325</u>	<u>27,701,778</u>
Total liabilities	<u>10,778,919</u>	<u>23,586,860</u>	<u>34,365,779</u>	<u>33,413,280</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pension	-	-	-	646,400
<b>NET POSITION</b>				
Net invested in capital assets	21,947,996	25,230,573	47,178,569	42,432,725
Restricted for				
Debt service	-	733,057	733,057	874,848
Depreciation	-	748,642	748,642	1,362,069
Other purposes	566,355	-	566,355	750,202
Unrestricted	4,139,666	7,822,896	11,962,562	11,979,138
Total net position	<u>26,654,017</u>	<u>34,535,168</u>	<u>61,189,185</u>	<u>57,398,982</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 37,432,936</u>	<u>\$ 58,122,028</u>	<u>\$ 95,554,964</u>	<u>\$ 91,458,662</u>

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



**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
for the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			2015 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities</b>								
General government	\$ 2,162,112	\$ -	\$ -	\$ -	\$ (2,162,112)	\$ -	\$ (2,162,112)	\$ (1,893,555)
Public safety-Police	3,207,885	35,576	180,730	-	(2,991,579)	-	(2,991,579)	(2,253,051)
Public safety-Fire	1,623,964	-	117,726	-	(1,506,238)	-	(1,506,238)	(1,252,863)
Public works	2,608,130	-	450,038	1,528,500	(629,592)	-	(629,592)	(1,330,721)
Codes enforcement	379,396	5,791	-	-	(373,605)	-	(373,605)	(316,596)
Parks and recreation	878,772	103,017	15,000	-	(760,755)	-	(760,755)	(721,920)
GIS/Surveying	190,254	-	-	-	(190,254)	-	(190,254)	(151,176)
Business development	59,970	-	-	-	(59,970)	-	(59,970)	(27,156)
Tourism	1,252,360	175,954	10,000	-	(1,066,406)	-	(1,066,406)	(1,091,114)
State contracts	120,452	-	120,452	-	-	-	-	-
Interest on long-term debt	50,547	-	-	-	(50,547)	-	(50,547)	(24,217)
Total governmental activities	12,533,842	320,338	893,946	1,528,500	(9,791,058)	-	(9,791,058)	(9,062,369)
<b>Business-type activities</b>								
Berea Municipal Utilities	16,040,711	17,430,903	-	209,503	-	1,599,695	1,599,695	2,957,679
Total business-type activities	16,040,711	17,430,903	-	209,503	-	1,599,695	1,599,695	2,957,679
<b>Total primary government</b>	<b>\$28,574,553</b>	<b>\$ 17,751,241</b>	<b>\$ 893,946</b>	<b>\$ 1,738,003</b>	<b>(9,791,058)</b>	<b>1,599,695</b>	<b>(8,191,363)</b>	<b>(6,104,690)</b>
<b>General revenues</b>								
Taxes:								
					885,414	-	885,414	827,763
					176,142	-	176,142	167,137
					1,041,488	-	1,041,488	995,363
License fees:								
					1,093,827	-	1,093,827	1,163,899
					6,429,888	-	6,429,888	6,156,928
					946,272	-	946,272	892,739
					1,067,766	-	1,067,766	900,187
					16,902	-	16,902	-
Permits:								
					97,054	-	97,054	92,144
					79,828	-	79,828	29,784
					1,285	-	1,285	400
					51,044	48,606	99,650	86,685
					294,132	-	294,132	248,288
					12,181,042	48,606	12,229,648	11,561,317
					(248,082)	-	(248,082)	(20,834)
					-	-	-	-
					2,141,902	1,648,301	3,790,203	5,435,793
					24,512,115	32,886,867	57,398,982	51,963,189
					\$ 26,654,017	\$ 34,535,168	\$ 61,189,185	\$ 57,398,982

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

**CITY OF BERA, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016**

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2015 Totals</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,535,070	\$ 326,317	\$ 783,086	\$ 2,644,473	\$ 2,952,526
Investments	7,075,415	767,555	103,635	7,946,605	6,998,000
Receivables, net	1,502,230	222,598	24,810	1,749,638	1,625,019
Interest receivable	5,175	354	75	5,604	4,849
Other assets	6,800	-	7,088	13,888	10,006
Due from other funds	-	-	2,798	2,798	318,810
Total assets	<u>\$ 10,124,690</u>	<u>\$ 1,316,824</u>	<u>\$ 921,492</u>	<u>\$ 12,363,006</u>	<u>\$ 11,909,210</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 362,315	\$ 119,665	\$ 19,832	\$ 501,812	\$ 393,266
Accrued payroll and related liabilities	255,578	7,967	-	263,545	205,969
Accrued taxes and other liabilities	1,256	1,950	-	3,206	3,734
Compensated absences	4,612	-	-	4,612	3,664
Unearned revenue	-	77,484	14,785	92,269	81,238
Due to other funds	5,107	-	-	5,107	318,810
Total liabilities	<u>628,868</u>	<u>207,066</u>	<u>34,617</u>	<u>870,551</u>	<u>1,006,681</u>
<b>Fund balances</b>					
Nonspendable	-	-	-	-	-
Restricted	-	-	566,355	566,355	750,202
Committed	4,080,000	24,848	-	4,104,848	4,744,512
Assigned	4,867,533	1,084,910	320,520	6,272,963	5,003,208
Unassigned	548,289	-	-	548,289	404,607
Total fund balances	<u>9,495,822</u>	<u>1,109,758</u>	<u>886,875</u>	<u>11,492,455</u>	<u>10,902,529</u>
Total liabilities and fund balances	<u>\$ 10,124,690</u>	<u>\$ 1,316,824</u>	<u>\$ 921,492</u>	<u>\$ 12,363,006</u>	<u>\$ 11,909,210</u>

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

Fund balances reported above	\$ 11,492,455	\$ 10,902,529
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	23,670,239	21,618,286
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(1,368)	(1,988)
Bond discounts are amortized over the life of the bond and is not reported in the funds.	5,467	8,202
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	1,399,331	30,373
Accounts payable and accrued payroll related to settlement agreement is not reported in the funds due to it not being payable in the current period.	(368,454)	-
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.	(9,543,653)	(8,045,287)
Net position of governmental activities	<u>\$ 26,654,017</u>	<u>\$ 24,512,115</u>

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

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2016**

	<u>General</u>	<u>Tourism</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2015 Totals</u>
<b>REVENUES</b>					
Taxes	\$ 885,414	\$ 1,217,630	\$ -	\$ 2,103,044	\$ 1,990,263
Licenses and permits	9,732,822	-	-	9,732,822	9,236,081
Charges for services	144,384	118,233	57,721	320,338	296,026
Fines and forfeits	62,260	-	-	62,260	42,392
Intergovernmental	489,707	10,000	394,239	893,946	1,518,743
Other revenues	190,890	75,112	16,913	282,915	246,995
Total revenues	<u>11,505,477</u>	<u>1,420,975</u>	<u>468,873</u>	<u>13,395,325</u>	<u>13,330,500</u>
<b>EXPENDITURES</b>					
Current:					
General administration	1,963,431	-	2,364	1,965,795	1,766,929
Public safety-police	2,457,461	-	1,934	2,459,395	2,407,261
Public safety-fire	1,412,376	-	-	1,412,376	1,284,989
Public works	1,680,302	-	456,065	2,136,367	1,953,316
Codes enforcement	363,312	-	-	363,312	325,243
Parks and recreation	622,293	-	-	622,293	584,933
GIS/Surveying	168,716	-	-	168,716	139,267
Business development	55,013	-	-	55,013	36,734
Tourism	-	1,135,529	64,287	1,199,816	1,212,134
State contracts	-	-	120,452	120,452	221,227
Capital outlay	1,677,908	221,188	41,810	1,940,906	3,116,805
Debt service	261,688	104,094	-	365,782	263,933
Total expenditures	<u>10,662,500</u>	<u>1,460,811</u>	<u>686,912</u>	<u>12,810,223</u>	<u>13,312,771</u>
Excess (deficiency) of revenues over expenditures	<u>842,977</u>	<u>(39,836)</u>	<u>(218,039)</u>	<u>585,102</u>	<u>17,729</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of assets	4,824	-	-	4,824	4,390
Financing proceeds	-	-	-	-	1,290,000
Transfers in (out)	(158,967)	-	158,967	-	-
Total other financing sources and uses	<u>(154,143)</u>	<u>-</u>	<u>158,967</u>	<u>4,824</u>	<u>1,294,390</u>
<b>Net change in fund balances</b>	<b>688,834</b>	<b>(39,836)</b>	<b>(59,072)</b>	<b>589,926</b>	<b>1,312,119</b>
Fund balances-beginning	<u>8,806,988</u>	<u>1,149,594</u>	<u>945,947</u>	<u>10,902,529</u>	<u>9,590,410</u>
<b>Fund balances-ending</b>	<b>\$ 9,495,822</b>	<b>\$ 1,109,758</b>	<b>\$ 886,875</b>	<b>\$ 11,492,455</b>	<b>\$ 10,902,529</b>
Reconciliation to government-wide change in net position:					
Net change in fund balances				\$ 589,926	\$ 1,312,119
add: capital outlay expenditures capitalized				1,940,906	3,116,805
add: contributed assets				1,528,500	-
add: debt service expenditures				365,782	263,933
less: proceeds from sale of assets				(4,824)	(4,390)
less: financing proceeds				-	(1,290,000)
gain (loss) on disposal of capital assets				(248,082)	(27,389)
less: amortization of deferred bond cost				(2,735)	(2,735)
change in long term compensated absences				(10,015)	(26,827)
less: depreciation on governmental activities assets				(1,164,545)	(1,089,083)
less: expenses related to settlement accrual				(368,454)	-
change in net pension liability				(434,010)	197,757
less: interest on long term debt				(50,547)	(24,217)
Change in net position Governmental Activities				<u>\$ 2,141,902</u>	<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, 2016**

	<b>Business-Type Activities</b>	
	<b>Utilities</b>	
	<b>2016</b>	<b>2015 Totals</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,806,889	\$ 1,262,650
Investments	7,002,084	7,468,530
Receivables (net)	2,334,121	2,528,652
Grant receivables	118,453	30,057
Other receivables	375,958	55,197
Interest receivable	3,257	3,828
Due from other funds	2,309	-
Total current assets	11,643,071	11,348,914
Noncurrent assets		
Restricted cash and cash equivalents	1,481,699	2,236,917
Inventory	678,072	869,034
Capital assets		
Construction in progress	1,327,587	2,736,581
Land and easements	264,242	264,242
Land improvements	84,201	84,201
Buildings and improvements	2,620,574	2,277,286
Plant and electric equipment	15,241,718	11,707,656
Plant and water equipment	19,434,138	19,193,717
Plant and sewer equipment	30,307,023	29,991,752
Vehicles and equipment	2,445,875	2,366,309
Less accumulated depreciation	(28,660,661)	(26,353,147)
Total noncurrent assets	45,224,468	45,374,548
Total assets	56,867,539	56,723,462
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows - pension	507,002	182,847
Defeasance on refunding	747,487	830,541
Total assets and deferred outflows of resources	\$ 58,122,028	\$ 57,736,850
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 2,069,210	\$ 2,257,324
Accrued payroll and related liabilities	67,162	49,945
Accrued taxes and other liabilities	142,281	160,099
Accrued interest payable	5,291	5,695
Customer deposits	669,050	650,790
Bonds, notes, and loans payable	1,628,046	1,583,174
Total current liabilities	4,581,040	4,707,027
Noncurrent liabilities		
Compensated absences	221,589	211,735
Bonds, notes, and loans payable	16,206,078	17,834,125
Net pension liability	2,578,153	1,925,247
Total noncurrent liabilities	19,005,820	19,971,107
Total liabilities	23,586,860	24,678,134
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	-	171,849
<b>NET POSITION</b>		
Net invested in capital assets	25,230,573	22,851,298
Restricted for debt service	733,057	874,848
Restricted for depreciation reserve	748,642	1,362,069
Unrestricted	7,822,896	7,798,652
Total net position	34,535,168	32,886,867
Total liabilities, deferred inflows of resources and net position	\$ 58,122,028	\$ 57,736,850

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

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2016**

	<b>Business-Type Activities</b>	
	<b>Utilities</b>	
	<b>2016</b>	<b>2015 Totals</b>
<b>Operating revenues</b>		
Electric service	\$ 10,211,799	\$ 11,597,597
Water service	3,032,619	3,031,808
Sewer service	2,394,992	2,416,496
Other revenues	<u>1,791,493</u>	<u>408,372</u>
Total operating revenues	<u>17,430,903</u>	<u>17,454,273</u>
<b>Operating expenses</b>		
Administration	1,213,337	1,083,792
Electric	9,650,998	9,588,749
Water	1,183,434	1,145,751
Sewer	1,201,043	1,133,845
Depreciation	<u>2,307,514</u>	<u>2,194,317</u>
Total operating expenses	<u>15,556,326</u>	<u>15,146,454</u>
Operating income (loss)	<u>1,874,577</u>	<u>2,307,819</u>
<b>Nonoperating revenues (expenses)</b>		
Interest and investment revenue	48,606	45,586
Interest expense	(418,601)	(465,088)
Amortization	(65,784)	(65,784)
Gain on sale of capital assets	<u>-</u>	<u>6,555</u>
Total nonoperating revenue (expense)	<u>(435,779)</u>	<u>(478,731)</u>
Income before capital contributions and transfers	1,438,798	1,829,088
Capital contributions		
Electric, water and sewer connection fees	68,050	62,775
Grant revenues	141,453	1,117,957
Transfers in (out)	<u>-</u>	<u>-</u>
<b>Change in net position</b>	1,648,301	3,009,820
Total net position-beginning	<u>32,886,867</u>	<u>29,877,047</u>
<b>TOTAL NET POSITION-ENDING</b>	<u><u>\$ 34,535,168</u></u>	<u><u>\$ 32,886,867</u></u>

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

**CITY OF BEREA, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2016**

	<b>Business-Type Activities</b>	
	<b>Utilities</b>	
	<b>2016</b>	<b>2015 Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 17,305,115	\$ 17,425,603
Payments to suppliers	(10,488,823)	(11,272,739)
Payments for employee services and benefits	(2,105,373)	(1,993,437)
Net cash provided by operating activities	4,710,919	4,159,427
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	121,107	1,150,675
Principal paid on capital debt	(1,565,904)	(1,521,081)
Purchases of capital assets and construction in progress	(3,573,719)	(3,005,738)
Proceeds from sale of capital assets	-	8,520
Interest paid on capital debt	(419,005)	(465,489)
Net cash (used) by capital and related financing activities	(5,437,521)	(3,833,113)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment activity (net)	466,446	(42,499)
Interest and dividends	49,177	44,976
Net cash provided by investing activities	515,623	2,477
Net increase (decrease) in cash and cash equivalents	(210,979)	328,791
Balances-beginning of the year	3,499,567	3,170,776
<b>BALANCES-END OF THE YEAR</b>	<b>\$ 3,288,588</b>	<b>\$ 3,499,567</b>
<b>Reconciliation of operating income (loss) to net cash</b>		
<b>provided (used) by operating activities:</b>		
Operating income (loss)	\$ 1,874,577	\$ 2,307,819
Adjustments to reconcile operating income to net cash		
provided (used) by operating activities:		
Depreciation expense	2,307,514	2,194,317
Change in assets and liabilities		
Receivables, net	(126,230)	(80,414)
Inventory	190,962	(268,259)
Due to/from other funds	(2,309)	-
Accounts payable	281,989	(9,831)
Accrued vacation, sick, & holiday	9,854	27,653
Accrued taxes	17,217	8,012
Other liabilities	(17,818)	1,162
Customer deposits	18,260	50,582
Net pension liability	156,903	(71,614)
Net cash provided by operating activities	<b>\$ 4,710,919</b>	<b>\$ 4,159,427</b>
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Payables for capital items, net	\$ (470,103)	\$ 538,283
Amortization expense	\$ 65,784	\$ 65,784

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

**CITY OF BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

The Berea Industrial Development Authority was created by Ordinance No. 18.86, adopted November 25, 1986, pursuant to KRS 154.50-316. The Authority was created to promote the gainful employment, business and economic development opportunities and general welfare of the citizens and residents of the City of Berea. The Authority is authorized to acquire real estate for use as manufacturing, processing and assembling sites, and to develop such sites for occupancy, use, lease or conveyance to industrial entities. The Authority is composed of six members, one of which is the Mayor. The other five members are appointed by the Mayor for four-year terms. The City Council approves the Authority's annual operating budget in conjunction with the City's annual budget authorization.

**B. Basis of Presentation**

**Government-wide Financial Statements**

The government-wide financial statements include a statement of net position and the statement of activities. These statements display information about the City as a whole. The statements distinguish between governmental and business-type activities of the City. These financial statements include the financial activities of the City except for fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The government-wide statement of activities reflects costs of government by function for governmental activities and business-type activities. Program revenues include charges paid by recipient for the goods or services offered by the program and grants or contributions that are restricted to the program. Revenues which are not classified as program revenues are presented as general revenues of the City.

**Fund Financial Statements**

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

**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation, continued**

**Fund Financial Statements, continued**

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

The following funds are used by the City of Berea:

Governmental Funds

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

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

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

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

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

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

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

**Police Restricted Fund** - 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 BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**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 BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Budgeting**

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

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

**E. Cash and Investments**

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

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

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

**F. Accounts Receivable and Revenues**

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

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

**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. Contributed assets are recorded at fair value at the date of donation.

**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 BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**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 BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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, 2016, fund balances are composed of the following:

	<b>General Fund</b>	<b>Tourism Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Restricted:				
Law enforcement	\$ -	\$ -	\$ 90,836	\$ 90,836
Road surface repairs	-	-	475,519	475,519
Committed:				
Capital additions	-	24,848	-	24,848
Capital projects reserve	1,800,000	-	-	1,800,000
Fund balance reserve	2,280,000	-	-	2,280,000
Assigned:				
Capital additions	3,738,200	-	-	3,738,200
Debt service	262,415	-	-	262,415
Other purposes	866,918	1,084,910	320,520	2,272,348
Unassigned	<u>548,289</u>	<u>-</u>	<u>-</u>	<u>548,289</u>
Total fund balances	<u>\$ 9,495,822</u>	<u>\$ 1,109,758</u>	<u>\$ 886,875</u>	<u>\$ 11,492,455</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 4, 2016, 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, 2016, 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 BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**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 \$20,881,750, and the bank balances totaled \$20,921,291. At June 30, 2016, \$21,420,056 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, 2016, consist entirely of certificates of deposit with maturities of one year or less.

**CITY OF BEREA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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:

	<b>General Fund</b>	<b>Tourism Fund</b>	<b>Nonmajor Funds</b>	<b>Governmental Funds Total</b>
Governmental Funds:				
Taxes	\$ 63,677	\$ 222,598	\$ -	\$ 286,275
Licenses, permits, billings	1,292,185	-	-	1,292,185
Charges for service	-	-	-	-
Intergovernmental	185,801	-	24,810	210,611
Other	<u>6,567</u>	<u>-</u>	<u>-</u>	<u>6,567</u>
Gross receivables	1,548,230	222,598	24,810	1,795,638
Less: allowance for uncollectible	<u>(46,000)</u>	<u>-</u>	<u>-</u>	<u>(46,000)</u>
Net receivables	<u>\$ 1,502,230</u>	<u>\$ 222,598</u>	<u>\$ 24,810</u>	<u>\$ 1,749,638</u>
Business-Type Activities:				
	<b>Total</b>			
Customer	\$ 2,409,121			
Less: allowance for uncollectible	<u>(75,000)</u>			
Net receivables	<u>\$ 2,334,121</u>			

**4. CAPITAL ASSETS**

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

	<b>July 1, 2015</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2016</b>
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 5,162,990	\$ 78,010	\$ -	\$ 5,241,000
Construction in progress	<u>293,906</u>	<u>816,631</u>	<u>(19,670)</u>	<u>1,090,867</u>
Totals	<u>5,456,896</u>	<u>894,641</u>	<u>(19,670)</u>	<u>6,331,867</u>
Capital assets that are depreciated:				
Buildings and improvements	7,556,738	269,632	(354,972)	7,471,398
Land improvements	744,219	-	-	744,219
Software	271,763	-	-	271,763
Vehicles	4,350,489	604,440	(62,154)	4,892,775
Equipment	<u>2,409,956</u>	<u>180,990</u>	<u>-</u>	<u>2,590,946</u>
Totals	15,333,165	1,055,062	(417,126)	15,971,101
Infrastructure assets	<u>12,645,007</u>	<u>1,539,371</u>	<u>-</u>	<u>14,184,378</u>
Total depreciable assets	<u>27,978,172</u>	<u>2,594,433</u>	<u>(417,126)</u>	<u>30,155,479</u>
Less accumulated depreciation:				
Buildings and improvements	4,393,266	239,327	(102,066)	4,530,527
Land improvements	213,368	24,292	-	237,660
Software	71,374	37,609	-	108,983
Vehicles	2,908,326	332,034	(62,154)	3,178,206
Equipment	1,813,531	138,523	-	1,952,054
Infrastructure assets	<u>2,416,917</u>	<u>392,760</u>	<u>-</u>	<u>2,809,677</u>
Totals	<u>11,816,782</u>	<u>1,164,545</u>	<u>(164,220)</u>	<u>12,817,107</u>
Depreciable capital assets, net	<u>16,161,390</u>	<u>1,429,888</u>	<u>(252,906)</u>	<u>17,338,372</u>
Total capital assets, net	<u>\$ 21,618,286</u>	<u>\$ 2,324,529</u>	<u>\$ (272,576)</u>	<u>\$ 23,670,239</u>

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**4. CAPITAL ASSETS (CONTINUED)**

	July 1, 2015	Additions	Deductions	June 30, 2016
Business-Type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	<u>2,736,581</u>	<u>2,562,243</u>	<u>(3,971,237)</u>	<u>1,327,587</u>
Totals	<u>3,000,823</u>	<u>2,562,243</u>	<u>(3,971,237)</u>	<u>1,591,829</u>
Capital assets that are depreciated:				
Land improvements	84,201	-	-	84,201
Buildings and improvements	2,277,286	343,288	-	2,620,574
Electric system	11,707,656	3,534,062	-	15,241,718
Water system	19,193,717	240,421	-	19,434,138
Plant and sewer system	29,991,752	315,271	-	30,307,023
Vehicle and equipment	<u>2,366,309</u>	<u>79,566</u>	-	<u>2,445,875</u>
Totals	65,620,921	4,512,608	-	70,133,529
Less accumulated depreciation	<u>26,353,147</u>	<u>2,307,514</u>	-	<u>28,660,661</u>
Depreciable capital assets, net	<u>39,267,774</u>	<u>2,205,094</u>	-	<u>41,472,868</u>
Total capital assets, net	<u>\$ 42,268,597</u>	<u>\$ 4,767,337</u>	<u>\$ (3,971,237)</u>	<u>\$ 43,064,697</u>

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 146,133
Police	181,255
Fire	126,632
Public works	399,345
Parks and recreation	244,158
Codes enforcement	3,941
GIS/Surveying	12,912
Tourism	<u>50,169</u>
Total depreciation expense	<u>\$ 1,164,545</u>

**5. CONSTRUCTION IN PROGRESS**

The City is in progress on the following projects:

	June 30, 2016
Business-Type Activities	
City Hall	\$ 1,405
Lagoon Expansion	199,738
Central Park North	24,681
Walnut Meadow Pump Station	32,978
Reservoir - Raw Water Source Study	<u>1,068,785</u>
Total construction in progress	<u>\$ 1,327,587</u>
Governmental Activities	
Indian Fort Trail – Phase II	\$ 64,512
Wayfinding Project	329,378
Ellipse Street Shared Use Path	34,829
Scaffold Cane Bike Trail	3,843
Municipal Center	624,137
Rash Road Drainage	5,225
S. Cumberland Drainage	2,257
Stadium Renovation	<u>26,686</u>
Total construction in progress	<u>\$ 1,090,867</u>

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**6. BUSINESS-TYPE ACTIVITIES - LONG TERM DEBT**

**BONDS AND NOTES PAYABLE**

On January 1, 2005, the City of Berea issued \$16,445,000 of Series 2005-A Combined Utilities Revenue Bonds and \$3,740,000 of Series 2005-B Combined Utilities Revenue Bonds to fund the purchase of the Berea College water and electric utilities. The Series 2005-A Bonds bear interest of 3-4.375%. The Series 2005-A bonds mature on January 1, 2025 and the series 2005-B Bonds matured in 2010. Interest on the Series 2005-A Bonds is paid semiannually, with principal due on January 1 of each year. A portion of the 2005-A Bonds were advance refunded on April 11, 2013. The 2005-A bonds had a balance of \$2,115,000 at June 30, 2016.

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, 2016, the City had a balance of \$2,625,802 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, 2016, the City had a balance of \$3,722,887 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, 2016, were \$8,865,000. As of June 30, 2016, the City had a balance of \$9,215,000 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:

	<b>June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2016</b>
Revenue bonds payable	\$ 12,410,000	\$ -	\$ 1,080,000	\$ 11,330,000
Notes payable	6,834,593	-	485,904	6,348,689
Net pension liability	1,925,247	652,906	-	2,578,153
Compensated absences	<u>211,735</u>	<u>9,854</u>	-	<u>221,589</u>
Total debt outstanding	<u>\$ 21,381,575</u>	<u>\$ 662,760</u>	<u>\$ 1,565,904</u>	<u>\$ 20,478,431</u>
Less current portion of:				
Revenue bonds				\$ 1,120,000
Notes payable				490,777
Unamortized premium				<u>17,269</u>
Current portion				<u>1,628,046</u>
Add unamortized premium				<u>155,435</u>
Total long term obligation				<u>\$ 19,005,820</u>



**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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, 2016:

	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
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	1,765,753	221,229	9,800	1,996,782
2022-26	7,976,606	527,211	31,538	8,535,355
2027-31	<u>1,213,511</u>	<u>30,539</u>	<u>7,635</u>	<u>1,251,685</u>
Total	<u>\$ 17,678,689</u>	<u>\$ 2,018,188</u>	<u>\$ 99,440</u>	<u>\$ 19,796,317</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, 2016, the depreciation fund had a balance of \$748,642.

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, 2016, the debt service fund had a balance of \$733,057.

**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 \$306 at June 30, 2016 to be paid out January 2017.

<b>June 30,</b>	
2017	\$ 306
Total lease payable	<u>\$ 306</u>

**CITY OF BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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, 2016 was \$1,216,937.

BONDS AND NOTES PAYABLE

Park Expansion Bond Payable

On April 8, 2008, the City issued \$3,375,000 in General Obligation Public Project Bonds, Series 2008. The proceeds funded the park expansion project. The bonds bear interest at rates ranging from 2.25% - 3.3%. The balance of the bonds at June 30, 2016 was \$505,000.

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 323,147	\$ 44,184	\$ 367,331
2018	329,785	34,034	363,819
2019	76,780	27,831	104,611
2020	78,828	25,783	104,611
2021	80,931	23,680	104,611
2022-25	<u>832,772</u>	<u>72,550</u>	<u>905,322</u>
Total	<u>\$ 1,722,243</u>	<u>\$ 228,062</u>	<u>\$ 1,950,305</u>

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

	<b>June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2016</b>
Leases payable - copier	\$ 1,859	\$ -	\$ 1,553	\$ 306
Leases payable – building	1,290,000	-	73,063	1,216,937
Park bonds payable	745,000	-	240,000	505,000
Net pension liability	5,316,468	1,802,967	-	7,119,435
Compensated absences	<u>691,960</u>	<u>10,015</u>	<u>-</u>	<u>701,975</u>
Total debt outstanding	<u>\$ 8,045,287</u>	<u>\$ 1,812,982</u>	<u>\$ 314,616</u>	<u>\$ 9,543,653</u>
Less current portion of:				
Leases payable				\$ 73,148
Park bonds				<u>250,000</u>
Current portion				<u>323,148</u>
Total long term obligation				<u>\$ 9,220,505</u>

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**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, 2016 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, 2016 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	\$ -	\$ 158,967
Industrial Development Fund	39,000	-
U.S. 25 North Fund	<u>119,967</u>	<u>-</u>
 Total	 <u>\$ 158,967</u>	 <u>\$ 158,967</u>

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

- A transfer to the Industrial Development Fund was made to cover expenses for the purchase of land.
- A transfer to the U.S. 25 North Fund was made to cover expenses prior to reimbursement from the state.

**10. RETIREMENT PLAN**

**CERS**

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

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

**CITY OF BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**10. RETIREMENT PLAN (CONTINUED)**

*Contributions* – For the year ended June 30, 2016, 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, 2016, participating employers contributed 17.06% 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 \$961,616 for the year ended June 30, 2016, or 100% of the required contribution. The contribution was allocated \$700,074 to the CERS pension fund and \$261,542 to the CERS insurance fund.

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

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

**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**10. RETIREMENT PLAN (CONTINUED)**

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

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources –* At June 30, 2016, the City reported a liability of \$9,697,588 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's proportion was .226 percent, which was an increase of .003 percent from its proportion at June 30, 2015 (.223 percent).

For the year ended June 30, 2016, the City recognized pension expense of \$1,115,295. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 80,590	\$ -
Changes of assumptions	977,896	-
Net difference between projected and actual earnings on Plan investments	86,933	-
Changes in proportion and differences between City contributions and proportionate share of contributions	60,840	-
City contributions subsequent to the measurement date	<u>700,074</u>	-
Total	<u>\$ 1,906,333</u>	<u>\$ -</u>

The \$700,074 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2017	\$ (417,179)
2018	(417,179)
2019	(198,668)
2020	(173,233)

**CITY OF BEREА, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**10. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

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

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

**CITY OF BERE A, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**10. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 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 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>Discount rate</u>		<u>City's proportionate share of net pension liability</u>
1% decrease	6.50%	\$	12,380,172
Current discount rate	7.50%	\$	9,697,588
1% increase	8.50%	\$	7,400,187

*Payable to the Pension Plan* – At June 30, 2016, the City reported a payable of \$138,863 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

**457(b) and 401(k)**

In addition, the City of Berea offers a 457(b) and a 401(k) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 56 participants in the 457(b) plan and 11 participants in the 401(k) plan. Employees can contribute 100% of includible compensation up to \$18,000 and an additional \$6,000 if 50 or older for calendar year 2015. During the fiscal year employees contributed \$115,382 to the 457(b) plan and \$13,405 to the 401(k) plan.

**11. PROPERTY TAX RATES AND CALENDAR**

Property taxes for fiscal year 2016 were levied in November 2015 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 10.2 cents per one hundred dollars of assessed value. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

<b>Description</b>	<b>Date Per K.R.S. 134.015</b>
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.

**CITY OF BERA, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

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**12. RISK MANAGEMENT**

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

**13. SUBSEQUENT EVENT**

*City of Berea, Kentucky General Obligation Public Project Bond Anticipation Note, Series 2016*

On September 1, 2016 the City entered into an agreement with PNC Bank to borrow up to \$9,900,000 for the purpose of financing the acquisition, construction, installation and equipping of a building for use as a city hall. Interest is payable on January 1 and July 1, commencing January 1, 2017. The note matures on September 1, 2018 and bears interest at a rate per annum which is at all times equal to 70% of the Daily LIBOR Rate, plus Forty-Six basis points. Long-term financing through the United States Department of Agriculture is expected to pay off the Bond Anticipation Note.



**SUPPLEMENTAL INFORMATION**

**CITY OF BERA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2016**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>MUNICIPAL TAXATION</b>				
General property taxes	\$ 625,000	\$ 640,000	\$ 687,386	\$ 47,386
State assessment property taxes	10,000	10,000	15,334	5,334
In lieu of property tax	9,300	20,500	44,374	23,874
Delinquent property taxes	10,000	10,000	28,401	18,401
Bank deposit taxes	58,311	56,678	56,805	127
Motor vehicle taxes	40,000	40,000	53,114	13,114
	<u>752,611</u>	<u>777,178</u>	<u>885,414</u>	<u>108,236</u>
<b>LICENSES, PERMITS, BILLINGS</b>				
Occupational license fees				
Insurance	650,000	700,000	946,272	246,272
Employee withholding	4,900,000	5,000,000	6,429,888	1,429,888
Net profits	450,000	450,000	1,001,497	551,497
Individual	15,000	25,000	55,576	30,576
Business	7,000	7,000	10,693	3,693
ABC	6,000	6,000	16,902	10,902
Utility franchise fees	970,000	970,000	1,093,827	123,827
Building permits	62,000	62,000	97,054	35,054
Electric permits	40,000	45,000	79,828	34,828
Burning permits	-	-	10	10
Street cut permits	200	200	1,275	1,075
	<u>7,100,200</u>	<u>7,265,200</u>	<u>9,732,822</u>	<u>2,467,622</u>
<b>CHARGES FOR SERVICE</b>				
Court costs & fees	26,000	21,900	14,609	(7,291)
Accident reports	2,000	2,000	4,590	2,590
Codes - plat review fee	2,500	2,500	5,791	3,291
GIS mapping fees	25	25	-	(25)
Police special services	3,500	3,500	16,377	12,877
Demolition cleanup	100	100	-	(100)
Parks concessions	13,000	14,000	11,661	(2,339)
Pool concessions	23,000	23,000	26,120	3,120
Swimming pool fees	55,000	55,000	63,551	8,551
Softball fees	500	500	-	(500)
Miscellaneous	1,200	1,200	1,685	485
	<u>126,825</u>	<u>123,725</u>	<u>144,384</u>	<u>20,659</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>FINES AND FORFEITS</b>				
Fingerprint charges	\$ 900	\$ 900	\$ 1,170	\$ 270
Court restitution	100	100	-	(100)
Codes violations	1,000	1,000	2,250	1,250
Penalties and interest	9,500	13,000	47,660	34,660
Parking fines	<u>7,000</u>	<u>7,000</u>	<u>11,180</u>	<u>4,180</u>
	<u>18,500</u>	<u>22,000</u>	<u>62,260</u>	<u>40,260</u>
<b>INTERGOVERNMENTAL REVENUES</b>				
County school-police contract	70,000	70,000	73,292	3,292
Madison County grants	53,000	53,000	53,000	-
Other grants	626,000	626,000	176,251	(449,749)
Volunteer fire state aid	8,250	8,250	8,250	-
Police incentive pay	100,000	100,000	107,438	7,438
Fire incentive pay	<u>68,000</u>	<u>68,000</u>	<u>71,476</u>	<u>3,476</u>
	<u>925,250</u>	<u>925,250</u>	<u>489,707</u>	<u>(435,543)</u>
<b>OTHER REVENUE</b>				
Rental income	74,275	74,275	85,182	10,907
Interest income	20,500	20,500	44,901	24,401
Insurance proceeds	-	-	32,027	32,027
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>28,780</u>	<u>23,780</u>
	<u>99,775</u>	<u>99,775</u>	<u>190,890</u>	<u>91,115</u>
<b>TOTAL REVENUE</b>	<u>\$ 9,023,161</u>	<u>\$ 9,213,128</u>	<u>\$ 11,505,477</u>	<u>\$ 2,292,349</u>

**CITY OF BEREA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>ADMINISTRATION</b>				
General Government				
Personnel	\$ 48,229	\$ 48,229	\$ 20,181	\$ (28,048)
Utilities	124,250	128,700	128,960	260
Materials and supplies	17,500	16,500	12,344	(4,156)
Services and support	415,200	409,200	360,421	(48,779)
Other expenditures	15,600	15,600	6,400	(9,200)
Administration				
Personnel	268,279	273,379	277,175	3,796
Materials and supplies	57,100	45,200	14,311	(30,889)
Services and support	201,400	201,400	89,639	(111,761)
Other expenditures	18,300	18,300	9,142	(9,158)
City Council				
Personnel	56,840	56,840	54,256	(2,584)
Services and support	61,600	61,600	60,020	(1,580)
Other expenditures	520,300	533,231	534,228	997
Finance Office				
Personnel	301,000	301,000	294,543	(6,457)
Materials and supplies	19,000	19,000	4,756	(14,244)
Services and support	92,500	92,500	86,635	(5,865)
Other expenditures	18,000	18,000	10,420	(7,580)
Total Administration	<u>2,235,098</u>	<u>2,238,679</u>	<u>1,963,431</u>	<u>(275,248)</u>
<b>POLICE</b>				
Personnel	2,308,000	2,315,000	2,185,622	(129,378)
Utilities	15,500	18,500	19,830	1,330
Materials and supplies	195,500	195,500	143,210	(52,290)
Services and support	91,500	95,000	50,600	(44,400)
Other expenditures	54,000	54,000	58,199	4,199
Total Police Department	<u>2,664,500</u>	<u>2,678,000</u>	<u>2,457,461</u>	<u>(220,539)</u>
<b>FIRE</b>				
Personnel	1,325,000	1,338,000	1,254,925	(83,075)
Utilities	13,200	13,200	9,642	(3,558)
Materials and supplies	89,500	79,500	87,664	8,164
Services and support	74,100	71,100	54,672	(16,428)
Other expenditures	12,000	12,000	5,473	(6,527)
Total Fire Department	<u>1,513,800</u>	<u>1,513,800</u>	<u>1,412,376</u>	<u>(101,424)</u>

**CITY OF BERA, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>STREETS</b>				
Personnel	\$ 1,141,101	\$ 1,141,101	\$ 1,024,156	\$ (116,945)
Utilities	129,250	129,250	114,468	(14,782)
Materials and supplies	381,550	333,550	207,861	(125,689)
Services and support	363,500	393,000	326,868	(66,132)
Other expenditures	<u>51,550</u>	<u>50,250</u>	<u>6,949</u>	<u>(43,301)</u>
Total Street Department	<u>2,066,951</u>	<u>2,047,151</u>	<u>1,680,302</u>	<u>(366,849)</u>
<b>CODES ENFORCEMENT</b>				
Personnel	360,505	360,125	323,444	(36,681)
Materials and supplies	22,500	22,800	16,833	(5,967)
Services and support	39,700	37,000	18,005	(18,995)
Other expenditures	<u>9,400</u>	<u>13,000</u>	<u>5,030</u>	<u>(7,970)</u>
Total Codes Enforcement	<u>432,105</u>	<u>432,925</u>	<u>363,312</u>	<u>(69,613)</u>
<b>PARKS AND RECREATION</b>				
Parks and Recreation				
Personnel	266,663	266,663	254,010	(12,653)
Utilities	93,890	93,890	74,684	(19,206)
Materials and supplies	61,200	61,200	34,493	(26,707)
Services and support	49,800	49,800	46,259	(3,541)
Other expenditures	33,200	33,200	26,699	(6,501)
Pool				
Personnel	83,700	83,700	72,573	(11,127)
Utilities	14,900	15,400	14,973	(427)
Materials and supplies	50,650	50,650	42,317	(8,333)
Services and support	34,500	34,500	33,140	(1,360)
Other expenditures	11,000	11,000	5,363	(5,637)
Intergenerational Center				
Utilities	18,700	18,700	14,053	(4,647)
Services and support	<u>10,000</u>	<u>10,000</u>	<u>3,729</u>	<u>(6,271)</u>
Total Parks and Recreation	<u>728,203</u>	<u>728,703</u>	<u>622,293</u>	<u>(106,410)</u>

**CITY OF BEREA, KENTUCKY  
REQUIRED SUPPLEMENTAL  
BUDGETARY COMPARISON GENERAL FUND  
for the year ended June 30, 2016**

	<b>Enacted Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>GIS/SURVEYING</b>				
GIS/Land Surveying				
Personnel	\$ 131,462	\$ 159,665	\$ 156,217	\$ (3,448)
Materials and supplies	13,500	13,500	8,375	(5,125)
Services and support	12,150	12,150	2,692	(9,458)
Other expenditures	5,500	5,500	1,432	(4,068)
Total GIS/Surveying	162,612	190,815	168,716	(22,099)
<b>BUSINESS DEVELOPMENT</b>				
Business Development				
Personnel	70,025	70,025	48,983	(21,042)
Materials and supplies	3,600	5,100	2,652	(2,448)
Services and support	6,000	6,000	1,460	(4,540)
Other expenditures	7,000	7,000	1,918	(5,082)
Total Business Development	86,625	88,125	55,013	(33,112)
<b>CAPITAL OUTLAY</b>	13,470,000	13,446,400	1,677,908	(11,768,492)
<b>DEBT SERVICE</b>	260,136	255,647	261,688	6,041
<b>TOTAL EXPENDITURES</b>	23,620,030	23,620,245	10,662,500	(12,957,745)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	4,824	4,824
Financing proceeds	11,000,000	11,000,000	-	(11,000,000)
Transfers in (out)	(61,000)	(6,785)	(158,967)	(152,182)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	10,939,000	10,993,215	(154,143)	(11,147,358)
<b>NET CHANGE IN FUND BALANCE</b>	\$ (3,657,869)	\$ (3,413,902)	\$ 688,834	\$ 4,102,736

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

**CITY OF BERA, KENTUCKY  
REQUIRED SUPPLEMENTAL  
BUDGETARY COMPARISON TOURISM FUND  
for the year ended June 30, 2016**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>MUNICIPAL TAXATION</b>				
Transient room tax	\$ 125,000	\$ 125,000	\$ 176,142	\$ 51,142
Restaurant tax	<u>920,000</u>	<u>920,000</u>	<u>1,041,488</u>	<u>121,488</u>
	<u>1,045,000</u>	<u>1,045,000</u>	<u>1,217,630</u>	<u>172,630</u>
<b>INTERGOVERNMENTAL</b>				
Grant revenues	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
<b>CHARGES FOR SERVICE</b>				
Workshop fees	<u>120,000</u>	<u>120,000</u>	<u>118,233</u>	<u>(1,767)</u>
<b>OTHER REVENUE</b>				
Miscellaneous revenue	<u>67,950</u>	<u>67,950</u>	<u>75,112</u>	<u>7,162</u>
<b>TOTAL REVENUE</b>	<u>1,242,950</u>	<u>1,242,950</u>	<u>1,420,975</u>	<u>178,025</u>
<b>TOURISM</b>				
Personnel	385,327	385,327	273,324	(112,003)
Utilities	82,120	82,120	35,696	(46,424)
Materials and supplies	44,200	44,200	5,677	(38,523)
Services and support	419,800	419,800	420,945	1,145
Other expenditures	<u>510,500</u>	<u>510,500</u>	<u>399,887</u>	<u>(110,613)</u>
	<u>1,441,947</u>	<u>1,441,947</u>	<u>1,135,529</u>	<u>(306,418)</u>
<b>CAPITAL OUTLAY</b>	<u>180,000</u>	<u>180,000</u>	<u>221,188</u>	<u>41,188</u>
<b>DEBT SERVICE</b>	<u>106,000</u>	<u>106,000</u>	<u>104,094</u>	<u>(1,906)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,727,947</u>	<u>1,727,947</u>	<u>1,460,811</u>	<u>(267,136)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing proceeds	-	-	-	-
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (484,997)</u>	<u>\$ (484,997)</u>	<u>\$ (39,836)</u>	<u>\$ 445,161</u>

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

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

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.



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

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

**Notes:**

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**CITY OF BEREA, KENTUCKY  
BUDGETARY COMPARISON  
PROPRIETARY FUND  
for the year ended June 30, 2016**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>BEREA MUNICIPAL UTILITIES</b>				
Administration				
Personnel	\$ 710,100	\$ 710,100	\$ 732,764	\$ 22,664
Utilities	72,800	72,800	63,666	(9,134)
Materials and supplies	57,800	57,800	43,488	(14,312)
Services and support	405,000	411,000	361,125	(49,875)
Other expenses	44,000	44,000	12,294	(31,706)
	<u>1,289,700</u>	<u>1,295,700</u>	<u>1,213,337</u>	<u>(82,363)</u>
Electric				
Personnel	545,825	545,825	563,979	18,154
Utilities	3,600	4,350	3,161	(1,189)
Materials and supplies	67,300	67,300	48,749	(18,551)
Services and support	10,231,300	10,241,300	8,090,309	(2,150,991)
Other expenses	874,500	1,124,500	944,800	(179,700)
	<u>11,722,525</u>	<u>11,983,275</u>	<u>9,650,998</u>	<u>(2,332,277)</u>
Water				
Personnel	450,200	450,200	455,623	5,423
Utilities	255,700	255,700	245,561	(10,139)
Materials and supplies	158,800	158,800	120,211	(38,589)
Services and support	379,000	383,000	338,453	(44,547)
Other expenses	37,000	42,000	23,586	(18,414)
	<u>1,280,700</u>	<u>1,289,700</u>	<u>1,183,434</u>	<u>(106,266)</u>
Sewer				
Personnel	547,300	547,300	536,981	(10,319)
Utilities	209,500	209,500	199,607	(9,893)
Materials and supplies	90,600	90,600	68,846	(21,754)
Services and support	378,800	378,800	372,030	(6,770)
Other expenses	28,200	41,200	23,579	(17,621)
	<u>1,254,400</u>	<u>1,267,400</u>	<u>1,201,043</u>	<u>(66,357)</u>
Total Expenses	<u>\$ 15,547,325</u>	<u>\$ 15,836,075</u>	<u>\$ 13,248,812</u>	<u>\$ (2,587,263)</u>

**CITY OF BEREA, KENTUCKY  
COMBINING BALANCE SHEET  
ALL NONMAJOR FUNDS  
June 30, 2016**

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	Municipal Road Aid Fund	Industrial Development Fund	Menelaus Pike Fund	Berea Corridor Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	2016 Total	2015 Totals
<b>ASSETS</b>									
Cash and cash equivalents	\$ 467,549	\$ 28,433	\$ 54,254	\$ -	\$ 90,836	21,737	\$ 120,277	\$ 783,086	\$ 846,829
Investments	-	103,635	-	-	-	-	-	103,635	102,962
Accounts receivable	24,810	-	-	-	-	-	-	24,810	52,429
Interest receivable	-	75	-	-	-	-	-	75	74
Other assets	-	-	-	-	-	7,088	-	7,088	10,006
Due from other fund	-	-	-	2,798	-	-	-	2,798	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,798</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 492,359</u>	<u>\$ 132,143</u>	<u>\$ 54,254</u>	<u>\$ 2,798</u>	<u>\$ 90,836</u>	<u>\$ 28,825</u>	<u>\$ 120,277</u>	<u>\$ 921,492</u>	<u>\$ 1,012,300</u>
<b>LIABILITIES AND FUND BALANCE</b>									
<b>Liabilities</b>									
Accounts payable	\$ 16,840	\$ 63	\$ -	\$ 2,798	\$ -	\$ 131	\$ -	\$ 19,832	\$ 38,811
Accrued payroll	-	-	-	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	14,785	-	14,785	18,310
Due to other fund	-	-	-	-	-	-	-	-	9,232
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,232</u>
<b>Total liabilities</b>	16,840	63	-	2,798	-	14,916	-	34,617	66,353
<b>Fund balance</b>	<u>475,519</u>	<u>132,080</u>	<u>54,254</u>	<u>-</u>	<u>90,836</u>	<u>13,909</u>	<u>120,277</u>	<u>886,875</u>	<u>945,947</u>
<b>Total liabilities and fund balances</b>	<u>\$ 492,359</u>	<u>\$ 132,143</u>	<u>\$ 54,254</u>	<u>\$ 2,798</u>	<u>\$ 90,836</u>	<u>\$ 28,825</u>	<u>\$ 120,277</u>	<u>\$ 921,492</u>	<u>\$ 1,012,300</u>

**CITY OF BEREA, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2016**

	<b>Municipal Road Aid Fund</b>	<b>Industrial Development Fund</b>	<b>Menelaus Pike Fund</b>	<b>Berea Corridor Fund</b>	<b>Police Restricted Fund</b>	<b>Berea Craft Festival Fund</b>	<b>US 25 North Fund</b>	<b>2016 Total</b>	<b>2015 Totals</b>
<b>REVENUES</b>									
Intergovernmental revenues	\$ 273,787	\$ -	\$ -	\$ 485	\$ -	\$ -	\$ 119,967	\$ 394,239	568,234
Charges for services	-	-	-	-	-	57,721	-	57,721	67,067
Other revenues	299	16,487	38	-	65	15	9	16,913	14,696
	<u>274,086</u>	<u>16,487</u>	<u>38</u>	<u>485</u>	<u>65</u>	<u>57,736</u>	<u>119,976</u>	<u>468,873</u>	<u>649,997</u>
Total revenues									
	<u>274,086</u>	<u>16,487</u>	<u>38</u>	<u>485</u>	<u>65</u>	<u>57,736</u>	<u>119,976</u>	<u>468,873</u>	<u>649,997</u>
<b>EXPENDITURES</b>									
Current									
General administration	-	2,364	-	-	-	-	-	2,364	1
Police department	-	-	-	-	1,934	-	-	1,934	4,872
Street department	456,065	-	-	-	-	-	-	456,065	309,851
Tourism	-	-	-	-	-	64,287	-	64,287	56,629
State Contracts	-	-	-	485	-	-	119,967	120,452	221,227
Capital outlay	-	41,810	-	-	-	-	-	41,810	35,182
Debt service	-	-	-	-	-	-	-	-	-
	<u>456,065</u>	<u>44,174</u>	<u>-</u>	<u>485</u>	<u>1,934</u>	<u>64,287</u>	<u>119,967</u>	<u>686,912</u>	<u>627,762</u>
Total expenditures									
	<u>456,065</u>	<u>44,174</u>	<u>-</u>	<u>485</u>	<u>1,934</u>	<u>64,287</u>	<u>119,967</u>	<u>686,912</u>	<u>627,762</u>
Excess revenues over (under) expenditures before other sources (uses)	(181,979)	(27,687)	38	-	(1,869)	(6,551)	9	(218,039)	22,235
<b>Other financing sources</b>									
Proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Transfers from (to) other funds	-	39,000	-	-	-	-	119,967	158,967	25,000
	<u>-</u>	<u>39,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,967</u>	<u>158,967</u>	<u>25,000</u>
<b>Excess revenues and other sources over (under) expenditures</b>	(181,979)	11,313	38	-	(1,869)	(6,551)	119,976	(59,072)	47,235
Fund balances, July 1, 2015	657,498	120,767	54,216	-	92,705	20,460	301	945,947	898,712
	<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>	<u>898,712</u>
<b>FUND BALANCES- JUNE 30, 2016</b>	<u>\$ 475,519</u>	<u>\$ 132,080</u>	<u>\$ 54,254</u>	<u>\$ -</u>	<u>\$ 90,836</u>	<u>\$ 13,909</u>	<u>\$ 120,277</u>	<u>\$ 886,875</u>	<u>\$ 945,947</u>



**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, 2016, 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 4, 2016.

**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  
Lexington, Kentucky  
October 4, 2016