



City of Berea, Kentucky

Independent Auditors' Report

And Financial Statements

For the Year Ended

June 30, 2019

City of Berea, Kentucky
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-16
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	22
Statement of Net Position - Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	24
Statement of Cash Flows - Proprietary Funds	25
Notes to the Basic Financial Statements	26-51
Required Supplementary Information	
Statement of Revenues, Expenses and Changes in Fund Balance - General Fund - Budget and Actual	52 - 55
Statement of Revenues, Expenses and Changes in Fund Balance - Tourism Fund - Budget and Actual	56
Pension - Proportionate Share of the Net Pension Liability	57
Pension Schedules - Schedule of Contributions	58
OPEB - Schedule of Contributions	59

City of Berea, Kentucky
Table of Contents

OPEB Schedules - Schedule of Changes in the OPEB Liability	60
Supplementary Information	
Budget Information - Proprietary Funds	61
Combining Balance Sheet - Nonmajor Governmental Funds	62
Combining Statement of Revenues, Expenses and Changes in Fund Balance - Nonmajor Governmental Funds	63
Schedule of Expenditures of Federal Awards	64
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	65-66

INDEPENDENT AUDITORS' REPORT

The Honorable Bruce Fraley, Mayor
City Council
City of Berea, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of June 30, 2019, 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, pension and OPEB schedules on pages 3-16, 52-60 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 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 forming opinions on the financial statements that collectively comprise the City of Berea, Kentucky's basic financial statements. The combining financial schedules, budgetary comparison information and schedule of expenditures of federal awards on pages 61-64 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October F€, 2019 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.

Prior-Year Comparative Information

We have previously audited the City's 2018 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 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Baldwin CPA's, PLLC

Baldwin CPA's, PLLC
Richmond, Kentucky
October F€, 2019

**City of Berea, Kentucky
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019**

Our discussion and analysis of the City of Berea's financial performance provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read the following in conjunction with the auditors' report on page 1-2 and the City's financial statements, which begin to appear on page 17.

OVERVIEW OF THIS ANNUAL REPORT

This annual report consists of the management's discussion and analysis report, the independent 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* presents information on all of the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City 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.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

In the *Statement of Net Position* and the *Statement of Activities*, the City is divided 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

A fund is a grouping of related account that is used to maintain control over resources that have been segregated for specific activities or objectives. 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, a reconciliation is provided after the governmental fund statements 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. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

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
Net Position**

	Governmental Activities	Business-type Activities	2019 Total Primary Government	2018 Total Primary Government
Current Assets	\$ 14,267,421	\$ 11,043,027	\$ 25,310,448	\$ 26,893,651
Capital Assets	37,531,923	39,396,739	76,928,662	76,118,348
Other Noncurrent Assets	-	5,582,623	5,582,623	3,220,044
Total Assets	<u>51,799,344</u>	<u>56,022,389</u>	<u>107,821,733</u>	<u>106,232,043</u>
Deferred Outflows of Resources	<u>4,406,092</u>	<u>1,835,933</u>	<u>6,242,025</u>	<u>7,160,093</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 56,205,436</u>	<u>\$ 57,858,322</u>	<u>\$ 114,063,758</u>	<u>\$ 113,392,136</u>
Current Liabilities	\$ 1,131,326	\$ 3,911,112	\$ 5,042,438	\$ 5,654,912
Long-term Liabilities	26,767,463	16,358,379	43,125,842	44,387,719
Total Liabilities	<u>27,898,789</u>	<u>20,269,491</u>	<u>48,168,280</u>	<u>50,042,631</u>
Deferred Inflows of Resources	<u>1,494,591</u>	<u>467,389</u>	<u>1,961,980</u>	<u>1,564,566</u>
Net Position:				
Invested in Capital Assets Net of Related Debt	26,209,613	26,596,562	52,806,175	50,118,925
Restricted	507,582	4,841,990	5,349,572	3,071,608
Unrestricted	94,861	5,682,890	5,777,751	8,594,406
Total Net Position	<u>26,812,056</u>	<u>37,121,442</u>	<u>63,933,498</u>	<u>61,784,939</u>
Total Liabilities and Net Position	<u>\$ 56,205,436</u>	<u>\$ 57,858,322</u>	<u>\$ 114,063,758</u>	<u>\$ 113,392,136</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The City's current assets decreased by nearly \$1.6 million from the prior year. This is primarily due to a timing difference between the years in the transfer of funds into a restricted cash account used to fund utility related capital projects and equipment. As such, restricted cash and cash equivalents increased by \$2.4 million. This increase in restricted cash also reflects a decrease in spending in the current year. Governmental capital assets increased by \$1.8 million, while BMU capital assets decreased by approximately \$860,000 due to depreciation exceeding capital projects and purchases. Overall, total assets increased by nearly \$1.6 million.

The City's current liabilities decreased by approximately \$600,000. A lack of projects in progress at year end resulted in the decrease in accounts payable. Long-term liabilities decreased nearly \$1.3 million. In addition to regular debt service payments, the City paid an additional \$72,000 toward the principal on the 2015 lease agreement in an effort to avoid a large balloon payment at maturity in 2015.

Current year deferred outflows of resources decreased by nearly \$1 million. Deferred inflows of resources increased by nearly \$400,000. Changes in deferred inflows of resources and deferred outflows of resources primarily result from changes in the pension and OPEB liabilities, over which the City has no control. For additional information, please see Notes 10 & 11.

Overall, the assets and deferred outflows of the City of Berea exceeded liabilities by \$63,933,498. This was a 3 percent increase in net position from the adjusted net position of the prior fiscal year. Of this \$64 million of net position, 83 percent is investments 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 \$5,349,572 of the City's net assets represents resources that are subject to restrictions on how they must be used. The remaining balance of \$5,777,751 is unrestricted. The City's unrestricted portion of total net position decreased by approximately \$2.1 million over the prior year's unrestricted portion.

Further details of the changes in net position between 2019 and 2018 can be observed in Table 2.

Table 2
Changes in Net Position

	Governmental Activities	Business-type Activities	2019 Total Primary Government	2018 Total Primary Government
<u>Revenues</u>				
<u>Program Revenues</u>				
Charges for Services	\$ 340,139	\$ 18,988,720	\$ 19,328,859	\$ 19,335,299
Operating Grants & Contributions	728,873	-	728,873	787,181
Capital Grants & Contributions	2,113,076	216,670	2,329,746	1,759,919
General Revenue			-	-
Taxes	2,217,278	-	2,217,278	2,188,881
License fees	9,958,926	-	9,958,926	9,911,538
Permits	103,906	-	103,906	110,539
Investment Earnings	155,191	102,849	258,040	108,168
Other Revenues	243,376	-	243,376	251,157
Total Revenues	15,860,765	19,308,239	35,169,004	34,452,682
<u>Program Expenses</u>				
General Government	2,758,145	-	2,758,145	2,292,539
Public Safety - Police	3,489,524	-	3,489,524	2,851,966
Public Safety - Fire	2,533,765	-	2,533,765	2,511,088
Public Works	3,192,170	-	3,192,170	2,718,945
Codes enforcement	486,008	-	486,008	565,225
Parks and Recreation	1,010,396	-	1,010,396	997,769
GIS/Surveying	209,755	-	209,755	198,132
Business Development	82,514	-	82,514	169,430
Tourism	1,353,967	-	1,353,967	1,354,663
Information Technology	221,822	-	221,822	201,858
State Contracts	-	-	-	77,463
Interest on Long-term Debt	375,200	-	375,200	187,427
Utilities	-	17,006,568	17,006,568	17,803,780
Total Program Expenses	15,713,266	17,006,568	32,719,834	31,930,285
Gain/(Loss) on Sale of Property	(314,738)	14,127	(300,611)	(208,925)
Change in Net Position	\$ (167,239)	\$ 2,315,798	\$ 2,148,559	\$ 2,313,472

Governmental Activities

Governmental activities decreased the City's total net position by \$167,239. Overall, governmental revenue was up by roughly \$875,000 from the previous year. Occupational license fee, the largest governmental revenue source, held stable with a slight increase of less than one percent. Other sources of revenue such as building, electrical and mechanical permits decreased slightly as a result of the completion of several major projects and a slow down on a housing surge at the end of the prior fiscal year. Investment earnings saw an increase of \$95,000 (160%), as interest rates on the City's certificates of deposit increased from approximately 0.5% to 2.0%.

General fund revenue from capital grants and contributions varies greatly year to year. In FY19, the City's grant funding decreased, primarily due to the \$400,000 grant in FY18 for the purchase of a fire truck. Capital contributions, however, increased during FY19. The City received contributed capital valued at \$2,086,250 for city streets, curbs and gutters within the multiple subdivisions. Once accepted, the City takes over maintenance of this infrastructure.

Total program expenses increased by \$1.6 million (11%). Included in the City's change in net position are a number of expenses which are not cash expenditures of the City. Changes in the net pension and OPEB liabilities are amortized across a prescribed number of years and not cash expenditures of the City. Changes in net pension liability and OPEB liabilities attributed to nearly \$157,000 of increased expenses shown above. Additionally, depreciation expense is also included in the change of net position. Depreciation expense recognizes the cost of capital assets over the useful life of the asset, instead of recognizing the expense when the purchase occurred. The increase in depreciation expense accounts for \$876,000 of the increase in program expenses. The increase results from FY19 being the first full year of depreciation on the City Hall construction project and several city streets that were accepted as contributed capital in this fiscal year and last.

Also included in the change in net position of governmental activities is a loss of \$300,000 on the disposal of property. During FY19, the city purchased property for \$340,000 on behalf of the Berea Industrial Authority. The property was gifted to Hyster-Yale to be used to expand their current operations, which will ultimately strengthen economic impact on the city.

A more detailed explanation of cash expenditures is provided in the following analysis of governmental fund activities.

Business-type Activities

Business-type activities increased the City's net position by \$2.3 million. Revenue from the sale of electric increased by \$277,000, while water and wastewater revenue decreased by \$129,000 and \$159,000, respectively. There were no rate increases in any of the services. However, there were increases from Kentucky Utilities that were passed along to electric customers through the power cost adjustment mechanism.

Berea Municipal Utilities continues to receive grant funding for a number of projects. Revenue from funding will vary each year depending on the active projects and the funding available. Approximately \$216,670 in grant funds were received for a long-term project in which the Owsley Fork Dam would be reinforced and expanded to compound more water. Owsley Fork Lake is the primary source for Berea's drinking water. This expansion will ensure the water supply is sufficient for any potential growth within the City or southern Madison County.

Total operating expenses for business-type activities decreased by \$756,000. Administration costs were down \$50,000 in the current year. This decrease is primarily due to some reassignment of supervisory roles upon the retirement of the Utilities Director in August 2018. Also, in FY2019, the billing and collections function was transferred to the finance department of the General Fund. Direct expenses, such as salaries and supplies, are initially paid for out of governmental funds, but are reimbursed quarterly by the proprietary fund. The overall financial impact of this restructuring has been minimal, but it is noteworthy because of the major change to operations.

Expenses within the electric division accounts decreased by \$825,000. Beginning May 1, 2019, the city began purchasing power from American Municipal Power Ohio, with transmission facilitated by the Kentucky Municipal Energy Association. As a result, the city saw significant savings on the cost of purchased power. To a lesser degree, the decrease in purchased power cost resulted from a particularly mild winter. Expenses in the water and sewer division showed slight increases (\$71,000 in total) resulting from general cost increases as well as cost of living increase for personnel.

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. Under this basis of accounting, many of the non-cash expenses previously discussed are not included as expenditures in the change in fund balance. Conversely, principal portions of debt obligations along with capital outlay expenditures are included on the fund statements, whereas they are not included in the change in net position.

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

Table 3
Change in Fund Balance

	2019	2018
Revenues		
Taxes	\$ 2,217,279	\$ 2,188,881
Licenses and permits	10,062,831	10,022,079
Charges for Services	340,138	348,705
Fines & Forfeits	66,443	44,323
Intergovernmental	755,700	1,525,692
Other Revenues	332,124	266,472
Total Revenues	<u>13,774,515</u>	<u>14,396,152</u>
Expenditures		
General Government	1,982,256	1,822,903
Public Safety - Police	2,881,655	2,614,131
Public Safety - Fire	2,023,818	1,814,062
Public Works	2,224,563	1,872,388
Codes Enforcement	411,178	431,999
Parks and Recreation	775,121	709,258
GIS/Surveying	170,776	141,179
Business Development	62,928	138,335
Information Technology	191,203	195,282
Tourism	1,259,866	1,191,398
State Contracts	-	77,463
Capital Outlay	1,894,871	7,097,849
Debt Service	433,319	10,027,247
Total Expenditures	<u>14,311,554</u>	<u>28,133,494</u>
Excess revenues over (under) before other sources (uses)	<u>(537,039)</u>	<u>(13,737,342)</u>
Other Financing Sources (Uses)		
Proceeds from sale of assets	44,212	39,008
Financing proceeds	-	15,598,582
Total Other Financing Sources (Uses)	<u>44,212</u>	<u>15,637,590</u>
Net Change in Fund Balance	<u><u>(492,827)</u></u>	<u><u>1,900,248</u></u>

Total fund balance for all governmental funds has decreased by \$493,000 from the prior year. The majority of this decrease is from General Fund with a decrease of \$486,000. Tourism's fund balance increased by \$55,000. The fund balances for Municipal Road Aid decreased by \$39,953 as funds received in the prior year were used to complete resurfacing that extended into the current fiscal year. The Craft Festival fund balance increased by \$15,252. The police restricted fund decreased by \$31,404, as funds received in prior years were accumulated to purchase a vehicle in the current year.

In the prior discussion of changes in net position, it was noted that governmental revenue had increased. However, since much of that increase resulted from non-cash contributions of capital, we find that revenue in the fund statements has decreased. The decrease in revenue on the fund statements primarily resulted from decreased grant funding.

Expenditures on the fund balance statements decreased by \$13.8 million, due to the construction and financing arrangements in the prior year related to the City Hall projection. In the absence of this project, governmental expenditures would have increased by \$672,000.

Public works saw the largest increase of \$352,000 (19%). Of this increase, \$92,000 resulted from resurfacing at the Berea Park and Fire Station II. The Police Department saw an increase of \$267,000 (10%). This increase was primarily due to pay increases for all police officers in an effort to remain competitive with surrounding communities. The Fire Department saw a \$210,000 increase resulting from purchase of gear which requires period replacement. Government administration expenditures grew by \$159,000 resulting from increases in workers compensation insurances as well as property and casualty insurance. All departments saw minor increases in expenditures for personnel from cost of living increases and pension contribution increases.

BUDGET HIGHLIGHTS

Over the course of the fiscal year, the City amended the budget twice. 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 general fund amended budget to actual amounts for general fund activities is presented in the table below (Tables 4 & 5).

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

	Budget	Actual	Variance
Taxes	\$ 833,436	\$ 919,385	\$ 85,949
Licenses, Permits & Billings	8,858,000	10,062,831	1,204,831
Charges for Services	129,600	154,177	24,577
Fines & Forfeitures	36,128	64,976	28,848
Intergovernmental	409,500	444,244	34,744
Other Revenue	130,511	258,810	128,299
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 10,397,175</u>	<u>\$ 11,904,423</u>	<u>\$ 1,507,248</u>

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

	Budget	Actual	Variance
Administration	\$ 2,434,418	\$ 1,959,765	\$ (474,653)
Police	3,185,500	2,879,918	(305,582)
Fire	2,386,658	2,023,818	(362,840)
Public Works	2,370,734	1,902,477	(468,257)
Codes Enforcement	533,791	411,178	(122,613)
Parks & Recreation	963,620	775,121	(188,499)
GIS/Surveying	214,247	170,776	(43,471)
Information Technology	208,186	191,203	(16,983)
Business Development	239,564	62,928	(176,636)
Capital Outlay	2,617,850	1,510,491	(1,107,359)
Debt Service	260,000	256,488	(3,512)
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 15,414,568</u>	<u>\$ 12,144,163</u>	<u>\$ (3,270,405)</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 \$1.5 million. Of this, \$1.1 million is attributed to the collection of occupational license fees in excess of budgeted amounts.

The City tends to budget expenditures based on realistic estimates of expenses but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As a result, the City's expenditures were \$3.3 million below budgeted amounts. Of this, \$1.1 million was attributed to projects or other capital purchases included in the budget but did not reach fruition in the fiscal year. An additional \$880,000 resulted from personnel and related costs falling under budget due to vacant positions and reduced overtime across many departments. Additionally, pension legislation was passed after the budget had been prepared, lowering the required contribution rate. This decrease in the contribution rate contributed to personnel costs coming in below budget.

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, 2019, totals \$76,118,348, a one percent increase from the prior year. Major capital asset transactions during the year include:

- Acceptance of contributed city infrastructure valued at \$2,086,250. Streets included were portions of Lee Paige Court, Brooklyn Boulevard Court, Pauline Drive, Ridgewood Drive, Cooper Drive, Provincial Way, Berkshire Avenue, and Bryant's Trail. A retention pond at Bryant's Crossing Subdivision was also accepted.
- Purchase of an International Flat Bed Dump Truck for \$133,521 for public works.
- Purchase of an International Dump Truck with form frame extension for snow plow for \$153,356 for public works.
- Purchase of three tracks of land on Menelaus Pike for \$341,339. This purchase was related to an economic development initiative with the Berea Industrial Authority.
- Purchase and installation of playground structures at the Berea Park for \$104,757.
- Purchase of four police vehicles with attached equipment for \$173,378.
- Purchase of an International Flat Bed Dump Truck for \$128,550 for the electric division of Berea Municipal Utilities.
- Purchase of substation transmission meters for \$92,050 for the electric division of Berea Municipal Utilities.
- Renovation of the 200 Harrison Road office space for \$90,779 for Berea Municipal Utilities administration.
- Completion of the Indian Fort Trail Connector Path with a total project cost of \$643,745 over a multi-year period, \$458,348 of which was expended in FY19.
- Completion of the Duerson Stadium at the Berea Park with a total project cost of \$251,115 over a multi-year period, \$91,552 of which was expended in FY19.
- Completion of the Splash Pad at the Berea Pool with a total project cost of \$238,029 over a multi-year period, \$94,134 of which was expended in FY19.

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

Table 6
Capital Assets

	Governmental	Business-type	2019	2018
	Activities	Activities	Total	Total
			Primary	Primary
			Government	Government
Land, Buildings & Improvements	\$ 25,677,852	\$ 3,079,678	\$ 28,757,530	\$ 27,995,567
Construction in Progress	171,526	3,182,922	3,354,448	2,922,250
Infrastructure/Utility Plant	17,831,206	64,432,244	82,263,450	79,213,316
Vehicles, Equipment & Other	10,151,689	3,042,473	13,194,162	12,730,694
Total Capital Assets	53,832,273	73,737,317	127,569,590	122,861,827
Less Accumulated Depreciation	(16,300,350)	(34,340,578)	(50,640,928)	(46,743,479)
Total Net Capital Assets	\$ 37,531,923	\$ 39,396,739	\$ 76,928,662	\$ 76,118,348

DEBT

The City's long-term debt at June 30, 2019, totaled \$44,859,002, which was a \$1.2 million (3%) decrease during the fiscal year. The City paid \$1.8 million in debt service payments on bond and lease payments. However, the City's portion of the net pension liability increased by nearly \$1.1 million. The net OPEB liability decrease by 424,000.

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

Table 7
Long Term Debt

	Governmental	Business-type	2019	2018
	Activities	Activities	Total	Total
			Primary	Primary
			Government	Government
Leases	\$ 920,310	\$ -	\$ 920,310	\$ 1,069,310
Bonds Payable	10,402,000	7,835,000	18,237,000	19,447,000
Loans Payable	-	4,861,554	4,861,554	5,362,219
Net Pension Liability	11,331,530	3,942,164	15,273,694	14,197,959
Net OPEB Liability	3,297,384	1,155,112	4,452,496	4,876,346
Compensated Absences	895,067	218,881	1,113,948	1,118,707
Total Debt Outstanding	26,846,291	18,012,711	44,859,002	46,071,541

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The 2020 Budget for the City of Berea illustrates the financial strength and progressive nature of the City and its leaders. The budget demonstrates the strength and operational support for our personnel, infrastructure improvements, capital purchases, and day to day maintenance and operational monies for all departments of the City.

The 2020 Budget continues to financially support the Fund Balance Reserve and the Capital Sinking Fund. The Fund Balance Reserve remains at \$2,700,000. The monies in the Capital Reserve Fund represent two months of the City's operating expenses, excluding any capital expenditures for projects or equipment. The 2020 budget adds an additional \$600,000 to the Capital Sinking Fund. The fund balance for this fund is set at \$3,450,000. Monies placed in these funds are not budgeted and will require a budget amendment passed by Council before any of this money can be allocated.

In addition, to using these two investment tools the City still has an overall conservative approach to budgeting. The General Fund budget has a projected ending fund balance of \$251,313 unallocated. Combining the two reserve funds and the unallocated balance the 2020 budget expresses a total unbudgeted reserve of \$6,401,313. Preservation of the City's cash reserves remain a high priority of the City's staff. Purchases are made strictly on a cash balance basis. The General Fund cash balances are monitored daily and projections are made as to when cash flow will be available to make infrastructure improvements and when to purchase capital items for our different departments.

The City's major sources of revenue continue to be the Occupational Licenses fee, Insurance Premium tax, Franchise fees, Net Profits, and the collection of Property tax. The collection of Occupational License fees is stable currently. Growth in this area is an excellent indicator of our economic stability of our community and we need to continue to monitor the industrial and commercial sectors.

The prospect of industrial growth remains hopeful as we continue to work with the state Economic Development Cabinet to market Menelaus Road Industrial Park to new industrial clients. Our relationship with our existing industry and their confidence in the City of Berea and our work force is important. The infusion of new capital investment dollars into existing industrial infrastructure greatly improves the availability of job opportunities as well as the City's tax base and such growth helps to influence the State's Transportation Cabinet to release funds for the building of the second phase of the Berea Bypass.

One of the biggest challenges of budgeting each year is how to plan for the unknown. We routinely plan for challenges that are specific, but it is hard to predict the frequency of weather-related catastrophes, equipment loss, or loss of revenue of a business closing. We try to prepare ourselves against such challenges through the accumulation of reserve funds and operating on our cash flow. The present budget prepares for those challenges. Considering Berea's financial history and our projections, the revenue estimates remain at or near the level of the previous budget. Attention must be drawn to the projected amount of unallocated fund balance state in the amount of \$251,313.

The 2020 Budget continues to assist the 911 Center with funding in the amount of \$240,000. Each of the three governments contributes to the day-to-day operation of the Center. It is becoming more evident that all three governments must work together to collaborate on a more secure funding source to support the operations of the Madison County 911 Center.

One factor that most threatens the financial integrity of the City is our ability to provide wages and benefits package for our employees that is competitive with the private sector. The potential overhaul of the Kentucky Retirement System will have a great influence on the City's ability to hire talented individuals at a market rate that is competitive with the private sector. Presently, the accounting standards have imposed a mandatory statement of pension liability that is now included on our balance sheet making our financial outlook appear to be weaker than it would otherwise.

As with previous years, infrastructure improvements remain the focus of the Berea Municipal Utilities that include; Owsley Fork Dam design, B-Lake spillway restoration, Cowbell pump station, Middletown Truck line for Sewer, and SCADA upgrades at the Rash Road and Oak Street substations.

The 2020 Budget carried over many of the infrastructure projects that were contained in the 2019 Budget. The US-25 reconstruction project is almost complete and is expected to be completed by October 2019. This project was paid by KYTC funds at an estimated cost of eight million dollars. Funds for the design of the Scaffold Cane Trail will be made by contract from the State to the City during this Budget year. The use of the funds will require an 80/20 match with the City paying 20% in the amount of \$131,000. This project will address the unsafe pedestrian-way in the City of Berea. The Brushy Fork Trail is a partnership with Berea College to provide a trail from Slate Lick Road to Scaffold Cane to provide a marketable tourist attraction as well as a local community path to promote a healthier lifestyle.

In addition, upgrading our streets has become a priority due to the degrading the past few years. \$450,000 has been budgeted from the Municipal Road Aid Fund. This expenditure will cause our ending balance to be at a record low. However, these repairs are much needed, and the Administration will have to be more selective in future resurfacing projects.

The present budget demonstrates the continued financial responsibility by relying on the administration's commitment to responsible management of revenues in relation to expenditures. Our revenue sources of the City are somewhat diverse, our industrial partners remain the base of our income. Industries are influenced by the world's economy, causing the City's management to daily always strategize spending while maintaining the fiscal integrity of the City to provide efficient and effective services to our Citizens.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, 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 David Gregory, at 212 Chestnut Street, Berea, Kentucky 40403.

City of Berea, Kentucky
Statement of Net Position
June 30, 2019

	Primary Government			2018 Totals
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,550,675	\$ 845,798	\$ 3,396,473	\$ 4,807,831
Investments - certificates of deposit	9,927,705	7,182,549	17,110,254	17,021,999
Receivables, net	1,667,263	2,762,601	4,429,864	4,662,598
Other receivables	-	185,445	185,445	388,613
Interest receivable	22,713	13,089	35,802	8,927
Due from other funds	89,211	53,545	142,756	-
Other assets	9,854	-	9,854	3,683
Total current assets	<u>14,267,421</u>	<u>11,043,027</u>	<u>25,310,448</u>	<u>26,893,651</u>
Noncurrent assets				
Restricted cash and cash equivalents	-	4,841,989	4,841,989	2,492,669
Inventory	-	740,634	740,634	727,375
Capital assets				
Construction in progress	171,526	3,182,922	3,354,448	2,922,250
Land and easements	5,278,048	264,242	5,542,290	5,542,290
Land improvements, net	855,344	58,199	913,543	964,225
Buildings and improvements, net	13,821,395	1,721,270	15,542,665	15,458,657
Depreciable infrastructure, net	13,551,190	-	13,551,190	11,467,177
Plant and sewer system, net	-	11,299,356	11,299,356	12,171,241
Plant and electric system, net	-	8,959,463	8,959,463	9,253,012
Plant and water system, net	-	12,622,448	12,622,448	13,175,777
Vehicles and equipment	3,781,063	1,288,839	5,069,902	5,035,927
Software, net	73,357	-	73,357	127,792
Total noncurrent assets	<u>37,531,923</u>	<u>44,979,362</u>	<u>82,511,285</u>	<u>79,338,392</u>
Total Assets	<u>51,799,344</u>	<u>56,022,389</u>	<u>107,821,733</u>	<u>106,232,043</u>
Deferred Outflows of Resources				
Deferred outflows - pension and OPEB	4,406,092	1,337,608	5,743,700	6,578,714
Defeasance on refunding	-	498,325	498,325	581,379
Total assets and deferred outflows of resources	<u>\$ 56,205,436</u>	<u>\$ 57,858,322</u>	<u>\$ 114,063,758</u>	<u>\$ 113,392,136</u>
Liabilities				
Current liabilities				
Accounts payable	\$ 349,295	\$ 1,110,874	\$ 1,460,169	\$ 2,271,518
Accrued payroll	377,202	80,366	457,568	511,516
Accrued taxes and other liabilities	1,947	163,583	165,530	176,967
Accrued interest payable	163,627	4,051	167,678	77,215
Unearned revenue	101,518	-	101,518	100,796
Customer deposits	-	704,867	704,867	704,918
Compensated absences	5,364	205	5,569	7,266
Due to other funds	53,545	89,211	142,756	-
Current portion of long-term obligations	78,828	1,757,955	1,836,783	1,804,716
Total current liabilities	<u>1,131,326</u>	<u>3,911,112</u>	<u>5,042,438</u>	<u>5,654,912</u>
Noncurrent liabilities				
Compensated absences	895,067	218,881	1,113,948	1,118,707
Noncurrent portion of long-term obligations	11,243,482	11,042,222	22,285,704	24,194,707
Net pension liability	11,331,530	3,942,164	15,273,694	14,197,959
Net OPEB liability	3,297,384	1,155,112	4,452,496	4,876,346
Total noncurrent liabilities	<u>26,767,463</u>	<u>16,358,379</u>	<u>43,125,842</u>	<u>44,387,719</u>
Total liabilities	<u>27,898,789</u>	<u>20,269,491</u>	<u>48,168,280</u>	<u>50,042,631</u>
Deferred Inflows of Resources				
Deferred inflows - pension and OPEB	1,494,591	467,389	1,961,980	1,564,566
Net Position				
Net invested in capital assets	26,209,613	26,596,562	52,806,175	50,118,925
Restricted for				
Debt service	-	960,653	960,653	779,774
Depreciation	-	3,881,337	3,881,337	1,712,895
Other purposes	507,582	-	507,582	578,939
Unrestricted	94,861	5,682,890	5,777,751	8,594,406
Total net position	<u>26,812,056</u>	<u>37,121,442</u>	<u>63,933,498</u>	<u>61,784,939</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 56,205,436</u>	<u>\$ 57,858,322</u>	<u>\$ 114,063,758</u>	<u>\$ 113,392,136</u>

City of Berea, Kentucky
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense)			2018 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General government	\$ 2,758,145	\$ -	\$ -	\$ -	\$ (2,758,145)	\$ -	\$ (2,758,145)	\$ (2,292,539)
Public works	3,192,170	-	281,862	2,113,076	(797,232)	-	(797,232)	(1,797,385)
Public safety - fire	2,533,765	-	167,298	-	(2,366,467)	-	(2,366,467)	(1,665,799)
Public safety - police	3,489,524	43,847	263,404	-	(3,182,273)	-	(3,182,273)	(2,554,400)
Codes enforcement	486,008	7,946	-	-	(478,062)	-	(478,062)	(558,310)
GIS/Surveying	209,755	-	-	-	(209,755)	-	(209,755)	(198,132)
Business development	82,514	-	-	-	(82,514)	-	(82,514)	(169,430)
Tourism	1,353,967	185,962	16,309	-	(1,151,696)	-	(1,151,696)	(1,157,049)
Information technology	221,822	-	-	-	(221,822)	-	(221,822)	(201,858)
State contracts	-	-	-	-	-	-	-	-
Interest on long-term debt	375,200	-	-	-	(375,200)	-	(375,200)	(187,427)
Parks and recreation	1,010,396	102,384	-	-	(908,012)	-	(908,012)	(881,775)
Total governmental activities	15,713,266	340,139	728,873	2,113,076	(12,531,178)	-	(12,531,178)	(11,664,104)
Business-Type Activities								
Berea municipal utilities	17,006,568	18,988,720	-	216,670	-	2,198,822	2,198,822	1,616,218
Total Business-Type Activities	17,006,568	18,988,720	-	216,670	-	2,198,822	2,198,822	1,616,218
Total	\$ 32,719,834	\$ 19,328,859	\$ 728,873	\$ 2,329,746	(12,531,178)	2,198,822	(10,332,356)	(10,047,886)
General revenues								
Taxes:								
Property taxes, levied for general purposes					919,384	-	919,384	880,791
Transient room tax					186,461	-	186,461	194,293
Restaurant tax					1,111,433	-	1,111,433	1,113,797
Licenses fees:								
Franchise					1,165,510	-	1,165,510	1,167,969
Payroll					6,652,434	-	6,652,434	6,694,351
Insurance premiums					1,068,168	-	1,068,168	1,056,742
Occupational					1,042,167	-	1,042,167	961,520
ABC					30,647	-	30,647	30,956
Permits:								
Building					65,655	-	65,655	73,283
Electric					36,551	-	36,551	35,731
Other					1,700	-	1,700	1,525
Investment income					155,191	102,849	258,040	108,168
Miscellaneous					243,376	-	243,376	251,157
Total general revenues					12,678,677	102,849	12,781,526	12,570,283
Gain/(loss) on disposal of capital assets					(314,738)	14,127	(300,611)	(208,925)
Change in net position					(167,239)	2,315,798	2,148,559	2,313,472
Net position, beginning					26,979,295	34,805,644	61,784,939	59,471,467
Net Position, ending					\$ 26,812,056	\$ 37,121,442	\$ 63,933,498	\$ 61,784,939

City of Berea, Kentucky
Balance Sheet - Governmental Funds
June 30, 2019

	General Fund	Tourism Fund	Other Governmental Funds	Total Governmental Funds	2018 Totals
Assets					
Cash and cash equivalents	\$ 1,271,074	\$ 402,111	\$ 877,490	\$ 2,550,675	\$ 2,966,295
Investments	8,810,846	1,010,574	106,285	9,927,705	9,928,553
Receivables, net	1,401,001	240,579	25,683	1,667,263	1,758,283
Interest receivable	17,632	4,273	808	22,713	5,652
Other assets	4,943	-	4,911	9,854	3,683
Due from other funds	89,211	-	-	89,211	81
	<u>\$ 11,594,707</u>	<u>\$ 1,657,537</u>	<u>\$ 1,015,177</u>	<u>\$ 14,267,421</u>	<u>\$ 14,662,547</u>
Total assets					
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 160,808	\$ 81,003	\$ 107,484	\$ 349,295	\$ 263,691
Accrued payroll and related liabilities	364,640	12,562	-	377,202	420,028
Accrued taxes and other liabilities	760	1,187	-	1,947	2,879
Compensated absences	5,364	-	-	5,364	6,695
Unearned revenue	-	84,048	17,470	101,518	97,796
Due to other funds	-	-	53,545	53,545	81
Total liabilities	<u>531,572</u>	<u>178,800</u>	<u>178,499</u>	<u>888,871</u>	<u>791,170</u>
Fund Balances					
Nonspendable	4,943	-	4,911	9,854	-
Restricted	-	-	507,582	507,582	578,939
Committed	6,150,000	-	-	6,150,000	6,049,793
Assigned	4,656,879	1,478,737	324,185	6,459,801	5,843,945
Unassigned	251,313	-	-	251,313	1,398,700
Total fund balance	<u>11,063,135</u>	<u>1,478,737</u>	<u>836,678</u>	<u>13,378,550</u>	<u>13,871,377</u>
Total Liabilities and Fund Balances	<u>\$ 11,594,707</u>	<u>\$ 1,657,537</u>	<u>\$ 1,015,177</u>	<u>\$ 14,267,421</u>	<u>\$ 14,662,547</u>

City of Berea, Kentucky
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2019

Fund balances- total governmental funds	\$ 13,378,550
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated depreciation of \$16,300,339	37,531,933
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Interest accrued on general long term debt is not a current expenditure and is not reported in the funds	(163,627)
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Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Deferred outflows related to pension and OPEB	4,406,092
Deferred inflows related to pension and OPEB	(1,494,591)
	2,911,501

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	
Long term obligations	(11,322,310)
Compensated absences	(895,067)
Net pension liability	(11,331,530)
Net OPEB liability	(3,297,394)
	(26,846,301)

Net Position of governmental activities	\$ <u>26,812,056</u>
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City of Berea, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2019

	General Fund	Tourism Fund	Other Governmental Funds	Total Governmental Funds	2018 Totals
Revenues					
Taxes	\$ 919,385	\$ 1,297,894	\$ -	\$ 2,217,279	\$ 2,188,881
Licenses and permits	10,062,831	-	-	10,062,831	10,022,079
Intergovernmental revenue	444,244	16,309	295,147	755,700	1,525,692
Charges for services	154,177	127,920	58,041	340,138	348,705
Fines and forfeits	64,976	1,467	-	66,443	44,323
Other revenues	258,810	54,642	18,672	332,124	266,472
Total revenue	11,904,423	1,498,232	371,860	13,774,515	14,396,152
Expenditures					
General administration	1,959,765	-	22,491	1,982,256	1,822,903
Public works	1,902,477	-	322,086	2,224,563	1,872,388
Public safety-fire	2,023,818	-	-	2,023,818	1,814,062
Public safety-police	2,879,918	-	1,737	2,881,655	2,614,131
Parks and recreation	775,121	-	-	775,121	709,258
Tourism	-	1,216,702	43,164	1,259,866	1,191,398
Codes enforcement	411,178	-	-	411,178	431,999
GIS/Surveying	170,776	-	-	170,776	141,179
Business development	62,928	-	-	62,928	138,335
Information technology	191,203	-	-	191,203	195,282
State contracts	-	-	-	-	77,463
Debt service	256,488	176,831	-	433,319	10,027,247
Capital outlay	1,510,491	-	384,380	1,894,871	7,097,849
Total expenditures	12,144,163	1,393,533	773,858	14,311,554	28,133,494
Excess of revenues over (under) expenditures	(239,740)	104,699	(401,998)	(537,039)	(13,737,342)
Other financing sources (uses):					
Proceeds from sale of assets	44,212	-	-	44,212	39,008
Financing proceeds	-	-	-	-	15,598,582
Transfers (to) from other funds	(290,000)	(50,000)	340,000	-	-
Total other financing uses	(245,788)	(50,000)	340,000	44,212	15,637,590
Net change in fund balance	(485,528)	54,699	(61,998)	(492,827)	1,900,248
Fund balances, beginning	11,548,663	1,424,038	898,676	13,871,377	11,971,129
Fund balances, ending	\$ 11,063,135	1,478,737	\$ 836,678	\$ 13,378,550	\$ 13,871,377

City of Berea, Kentucky
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ (492,827)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset expenditures capitalized	1,878,293	
Capital asset contributed	2,086,250	
Loss on disposal of assets	(314,738)	
Proceeds from disposal of assets	(44,212)	
Depreciation expense	<u>(1,935,452)</u>	1,670,141

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Debt service expenditures	149,000	
Changes in interest on long term debt	<u>(90,881)</u>	58,119

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount related to the net pension liability.

Change in long term compensated absences	2,080	
Change in net OPEB liability	(123,643)	
Change in net pension liability	<u>(1,281,109)</u>	<u>(1,402,672)</u>

Change in Net Position of Governmental Activities \$ (167,239)

City of Berea, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2019

Assets	2019	2018 Totals
Current assets		
Cash and cash equivalents	\$ 845,798	\$ 1,841,536
Investments - certificates of deposit	7,182,549	7,093,446
Receivables, net	2,762,601	2,904,315
Grant receivables	180,877	372,636
Other receivables	4,568	15,977
Interest receivable	13,089	3,275
Due from other funds	53,545	-
Total Current Assets	11,043,027	12,231,185
Noncurrent assets		
Restricted cash and cash equivalents	4,841,989	2,492,669
Inventory	740,634	727,375
Capital assets		
Construction in progress	3,182,922	2,297,423
Land and easements	264,242	264,242
Land improvements	84,201	84,201
Buildings and improvements	2,731,235	2,629,106
Plant and electric equipment	15,088,713	14,899,293
Plant and water equipment	18,640,894	18,566,630
Plant and sewer equipment	30,702,637	30,646,181
Vehicles and equipment	3,042,472	2,976,286
Less accumulated depreciation	(34,340,577)	(32,106,796)
Total Noncurrent Assets	44,979,362	43,476,610
Total assets	56,022,389	55,707,795
Deferred Outflows of Resources		
Deferred outflows - pension and OPEB	1,337,608	1,690,079
Defeasance on refunding	498,325	581,379
Total assets and deferred outflows of resources	\$ 57,858,322	\$ 57,979,253
Liabilities		
Current liabilities		
Accounts payable	\$ 1,110,874	\$ 2,007,827
Accrued payroll and related liabilities	80,366	91,488
Accrued taxes and other liabilities	163,583	174,088
Accrued interest payable	4,051	4,469
Customer deposits	704,867	704,918
Deferred revenue	-	3,000
Compensated absences - current	205	571
Bonds, notes, and loans payable	1,757,955	1,727,936
Due to other funds	89,211	-
Total current liabilities	3,911,112	4,714,297
Noncurrent liabilities		
Compensated absences	218,881	221,560
Bonds, notes, and loans payable	11,042,222	12,800,177
Net OPEB liability	1,155,112	1,274,772
Net pension liability	3,942,164	3,753,794
Total noncurrent liabilities	16,358,379	18,050,303
Total liabilities	20,269,491	22,764,600
Deferred Inflows of Resources		
Deferred inflows - pension and OPEB	467,389	409,009
Net Position		
Net invested in capital assets	26,596,562	25,728,453
Restricted for debt service	960,653	779,774
Restricted for depreciation reserve	3,881,337	1,712,895
Unrestricted	5,682,890	6,584,522
Total Net Position	37,121,442	34,805,644
Total liabilities, deferred inflows of resources and net position	\$ 57,858,322	\$ 57,979,253

City of Berea, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018 Totals</u>
Operating Revenues		
Electric service	\$ 12,719,339	\$ 12,441,975
Water service	3,145,899	3,275,042
Sewer service	2,705,257	2,864,621
Other revenues	418,225	404,956
	<hr/>	<hr/>
Total Operating Revenues	18,988,720	18,986,594
	<hr/>	<hr/>
Operating expenses		
Administration	1,480,277	1,528,196
Electric	10,115,040	10,939,926
Water	1,307,275	1,241,803
Sewer	1,387,313	1,381,538
Depreciation	2,371,225	2,326,178
	<hr/>	<hr/>
Total operating expenses	16,661,130	17,417,641
	<hr/>	<hr/>
Operating income	2,327,590	1,568,953
	<hr/>	<hr/>
Nonoperating Revenues (Expenses)		
Interest and investment revenue	102,849	48,528
Interest expense	(279,655)	(320,355)
Amortization	(65,784)	(65,784)
Gain on disposal of capital assets	14,127	50,000
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	(228,463)	(287,611)
	<hr/>	<hr/>
Income before capital contributions	2,099,127	1,281,342
	<hr/>	<hr/>
Capital contributions		
Electric, water and sewer connection fees	51,600	61,050
Grant revenues	165,071	372,354
	<hr/>	<hr/>
Change in Net Position	2,315,798	1,714,746
	<hr/>	<hr/>
Net Position - beginning	34,805,644	33,090,898
	<hr/>	<hr/>
Net Position, ending	<u>\$ 37,121,442</u>	<u>\$ 34,805,644</u>

City of Berea, Kentucky
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

	2019	2018 Totals
Cash flows from operating activities		
Receipts from customers	\$ 19,330,551	\$ 18,217,752
Payments to suppliers	(12,293,249)	(12,118,128)
Payments to employee services and benefits	(2,416,314)	(2,380,438)
	4,620,988	3,719,186
Net cash provided by operating activities		
Cash flows from capital and related financing activities		
Capital contributions	216,671	433,404
Principal paid on capital debt	(1,710,665)	(1,660,696)
Purchases of capital assets and construction in progress	(1,511,398)	(1,521,752)
Proceeds from sale of capital assets	14,127	50,000
Interest paid on capital debt	(280,073)	(319,942)
	(3,271,338)	(3,018,986)
Net cash used by capital and related financing activities		
Cash flows from investing activities		
Investment activity, net	(89,103)	(45,940)
Interest and dividends	93,035	48,531
	3,932	2,591
Net cash provided by investing activities		
	-	-
Net increase in cash and cash equivalents	1,353,582	702,791
Balances-beginning of the year	4,334,205	3,631,414
Balances-end of the year	\$ 5,687,787	\$ 4,334,205
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,327,590	\$ 1,568,953
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,371,225	2,326,178
Net pension and OPEB liability	479,561	533,189
Change in assets and liabilities:		
Receivables, net	344,882	(778,325)
Inventory	(13,259)	(6,501)
Due to/from other funds	35,666	-
Accounts payable	(896,953)	44,692
Accrued vacation, sick and holiday	(3,046)	(10,556)
Accrued payroll and related taxes	(11,122)	13,647
Accrued taxes	(10,505)	18,426
Unearned revenue	(3,000)	3,000
Customer deposits	(51)	6,483
	4,620,988	3,719,186
Net cash provided by operating activities	\$ 4,620,988	\$ 3,719,186
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Amortization expense	\$ 65,784	\$ 65,784
Cash Reconciliation:		
Cash and cash equivalents	\$ 845,798	\$ 1,841,536
Restricted cash	4,841,989	2,492,669
	5,687,787	4,334,205
Cash and cash equivalents - end of year	\$ 5,687,787	\$ 4,334,205

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The City of Berea, Kentucky (the “City”) 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.

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 based on the City's ability to significantly influence operation, select the governing body, and participate in fiscal management and the scope of public service. The Berea Tourism Commission and the Berea Industrial Authority are included in the financial statements because of these criteria.

The Berea Tourism Commission was created by Ordinance No. 7.82, which was adopted April 6, 1982. The Commission is composed of seven members appointed by the Mayor pursuant to KRS 91A.360. The Commission submits an annual request for operating funds to the Berea City Council and an annual report of the operation of the Commission during the preceding year. Effective July 1, 1997, the City is providing accounting services for the Commission. In accordance with KRS 91A.060 the Commission is audited annually. The audit is performed in conjunction with the City's annual audit.

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

Basis of Presentation

Government-wide Financial Statements

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

Fund Financial Statements

Fund financials statements report detailed information about the City. The accounts of the City are organized based on funds each of which is considered 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 Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements

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 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:

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

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

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

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

Berea Craft Festival - A special revenue fund used to account for the activities of the annual Berea Craft Festival.

US 25 North – A special revenue fund used to account for a pass through from the state for the complete redesign of US 25. The redesign will be comprised of up to five lanes of traffic including turn lanes at intersections.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of significant accounting policies (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.

Basis of Accounting

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

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for individual funds.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Their focus is on individual funds rather than reporting funds by type. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, are typically recorded when the liability is incurred. Permits, fines and forfeits, and miscellaneous revenues (except for investment earnings) are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available in all funds.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and expenses are recognized when they are incurred. Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

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.

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.

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.

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.

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, 2019

Note 1 - Summary of significant accounting policies (continued)

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). 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.

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.

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; the liability was measured at June 30, 2018.

Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometime report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applied to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for its pension plan and OPEB plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applied to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred inflows of resources for its pension plan and OPEB plan.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2018.

Fund Balances

Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned — all other spendable amounts.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 1 - Summary of significant accounting policies (continued)

As of June 30, 2019, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	\$ 4,943	\$ -	\$ 4,911	\$ 9,854
Restricted:	-	-	-	-
Law Enforcement	-	-	91,309	91,309
Road surface repairs	-	-	416,273	416,273
Committed:				
Capital additions	-	-	-	-
Capital sinking fund	3,450,000	-	-	3,450,000
Fund balance reserve	2,700,000	-	-	2,700,000
Assigned:				
Capital additions	2,743,986	-	-	2,743,986
Debt service	325,062	180,783	-	505,845
Transfer to other fund	-	95,000	120,460	215,460
Other purposes	1,587,831	1,202,954	203,725	2,994,510
Unassigned	251,313	-	-	251,313
Total fund balances	<u>\$ 11,063,135</u>	<u>\$ 1,478,737</u>	<u>\$ 836,678</u>	<u>\$ 13,378,550</u>

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

Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 31, 2019, 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, 2019, have not been evaluated by the City.

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 Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 2 - Cash and investments

Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

The City's bank deposits were entirely covered by federal depository insurance or by collateral held by the custodial banks in the City's name. The bank balance of the City's deposits totaled \$27,638,120. At June 30, 2019, federal depository insurance covered \$1,000,000 of the City's deposits. The remainder is covered by \$26,638,120 of collateral pledged in the City's name by the custodial banks.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's policy is that, with the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

The City's investments at June 30, 2019, consist entirely of certificates of deposit with maturities of one year or less.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 3 - Receivables

Receivables at year end of the City's major individual funds and non-major funds taken together, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Tourism Fund	Nonmajor Funds	Governmental Funds total
Governmental Funds:				
Taxes	\$ 67,358	\$ 240,579	\$ -	\$ 307,937
Licenses, permits, billings	1,315,624	-	-	1,315,624
Charges for service	15,253	-	-	15,253
Intergovernmental	29,094	-	25,683	54,777
Other	26,672	-	-	26,672
Gross receivables	<u>1,454,001</u>	<u>240,579</u>	<u>25,683</u>	<u>1,720,263</u>
Less: allowance for uncollectible	<u>(53,000)</u>	<u>-</u>	<u>-</u>	<u>(53,000)</u>
Net receivables	<u><u>\$ 1,401,001</u></u>	<u><u>\$ 240,579</u></u>	<u><u>\$ 25,683</u></u>	<u><u>\$ 1,667,263</u></u>
Business-type Activities	Total			
Customer	\$ 2,832,601			
Less: allowance for uncollectible	<u>(70,000)</u>			
Net receivables	<u><u>\$ 2,762,601</u></u>			

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 4 - Capital assets

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

	July 1, 2018	Additions	Deductions	June 30, 2019
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 5,278,048	\$ 341,339	\$ (341,339)	\$ 5,278,048
Construction in progress	624,827		(453,301)	171,526
Totals	<u>5,902,875</u>	<u>341,339</u>	<u>(794,640)</u>	<u>5,449,574</u>
Capital assets being depreciated:				
Buildings and improvements	18,514,020	659,834		19,173,854
Land improvements	1,225,950			1,225,950
Software	317,396			317,396
Vehicles and equipment	9,437,012	686,677	(289,396)	9,834,293
Totals	<u>29,494,378</u>	<u>1,346,511</u>	<u>(289,396)</u>	<u>30,551,493</u>
Infrastructure assets	15,101,212	2,729,994	-	17,831,206
Total depreciable assets	<u>44,595,590</u>	<u>4,076,505</u>	<u>(289,396)</u>	<u>48,382,699</u>
Less accumulated depreciation:				
Buildings and improvements	4,785,472	566,986		5,352,458
Land improvements	324,067	46,539		370,606
Software	189,604	54,435		244,039
Vehicles and equipment	5,703,505	621,510	(271,786)	6,053,229
Infrastructure assets	3,634,035	645,983		4,280,018
Totals	<u>14,636,683</u>	<u>1,935,453</u>	<u>(271,786)</u>	<u>16,300,350</u>
Depreciable capital assets, net	<u>29,958,907</u>	<u>2,141,052</u>	<u>(17,610)</u>	<u>32,082,349</u>
Total capital assets, net	<u>\$ 35,861,782</u>	<u>\$ 2,482,391</u>	<u>\$ (812,250)</u>	<u>\$ 37,531,923</u>
Business-type Activities:				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	2,297,423	885,499		3,182,922
Totals	<u>2,561,665</u>	<u>885,499</u>	<u>-</u>	<u>3,447,164</u>
Capital assets being depreciated:				
Land improvements	84,201			84,201
Buildings and improvements	2,629,106	102,129		2,731,235
Electric system	14,899,293	189,420		15,088,713
Water system	18,566,630	74,264		18,640,894
Plant and sewer system	30,646,181	56,456		30,702,637
Vehicle and equipment	2,976,286	203,631	(137,444)	3,042,473
Totals	<u>69,801,697</u>	<u>625,900</u>	<u>(137,444)</u>	<u>70,290,153</u>
Less accumulated depreciation	<u>(32,106,796)</u>	<u>(2,371,226)</u>	<u>137,444</u>	<u>(34,340,578)</u>
Depreciable capital assets, net	<u>37,694,901</u>	<u>(1,745,326)</u>	<u>-</u>	<u>35,949,575</u>
Total capital assets, net	<u>\$ 40,256,566</u>	<u>\$ (859,827)</u>	<u>\$ -</u>	<u>\$ 39,396,739</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 4 Capital assets (continued)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 564,38G
Police	161,888
Fire	197,596
Public works	721,995
Parks and recreation	184,159
Codes enforcement	10,927
GIS/Surveying	8,174
Tourism	86,332
Total depreciation expense	<u>\$1,935,45H</u>

Note 5 - Construction in progress

The City is in progress on the following projects:

	<u>June 30, 2019</u>
Business-type Activities	
Water Main Upgrade - West	\$ 1,852
Raw Water - Owsley	1,828,335
Raw Water - Cowbell	10,883
Raw Water - B Lake	203,365
Central Park North/Walnut Meadow	784,692
25 North Lighting	52,277
1016 Sewerline Extension	101,703
Exacter Outage Avoidance System	10,750
WWTP Generator Project	189,065
Total construction in progress	<u>\$ 3,182,922</u>
Governmental Activities	
Ellipse Street Shared Use Path	\$ 42,114
Scaffold Cane Shared Use Path	9,268
Rash Road Drainage	13,730
Cherry Road Drainage	80,554
Tolle Building Renovation - Design	25,860
Total construction in progress	<u>\$ 171,526</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 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 \$5,000 at June 30, 2019.

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, 2019, the City had a balance of \$1,865,376 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, 2019, the City had a balance of \$2,996,177 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, 2019, were \$7,745,000. As of June 30, 2019, the City had a balance of \$7,830,000 on the Series 2013 Bonds. The Series 2013 Bonds bear interest of 2-3%. The bonds mature on January 1, 2025.

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

	June 30, 2018	Additions	Deductions	June 30, 2019
Revenue bonds payable	\$ 9,045,000	\$ -	\$ (1,210,000)	\$ 7,835,000
Notes payable	5,362,219	-	(500,665)	4,861,554
Net OPEB liability	1,274,772	-	(119,660)	1,155,112
Net pension liability	3,753,794	188,370	-	3,942,164
Compensated absences	221,560	-	(2,679)	218,881
Total debt outstanding	<u>\$ 19,657,345</u>	<u>\$ 188,370</u>	<u>\$ (1,833,004)</u>	<u>\$ 18,012,711</u>
Less current portion of:				
Revenue bonds				1,235,000
Notes payable				505,685
Unamortized premium				17,270
Current portion				<u>1,757,955</u>
Add unamortized premium				103,623
Total long term obligation				<u>\$ 16,358,379</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 6 - Business-Type Activities - Long-Term Debt (continued)

The following are the principal and interest maturities for the bonds and notes outstanding as of June 30, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2020	\$ 1,740,685	\$ 250,998	\$ 10,938	\$ 2,002,621
2021	1,765,754	221,229	9,800	1,996,783
2022	1,800,893	187,871	8,678	1,997,442
2023	1,836,046	150,356	7,491	1,993,893
2024	1,876,250	108,968	6,318	1,991,536
2025-29	3,266,954	105,768	15,580	3,388,302
2030-32	409,972	4,113	414	414,499
Total	<u>\$12,696,554</u>	<u>\$ 1,029,303</u>	<u>\$ 59,219</u>	<u>\$ 13,785,076</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, 2019, the depreciation fund had a balance of \$3,881,337.

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, 2019, the debt service fund had a balance of \$960,653.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 7 – Governmental activities – Long-Term Debt

Leases Payable

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

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, 2019 was \$920,310.

Bonds and Notes Payable

General Obligation Public Project Bond, Series 2018

On March 19, 2018, the City of Berea issued \$10,402,000 of Series 2018 General Obligation Bonds to fund the construction of City Hall. The Series 2018 Kentucky General Obligation Public Project Bonds bear interest at 3.125%. The Series 2018 bond matures on January 1, 2058. Interest on the Series 2018 bond is paid semi-annually, with principal due on January 1 each year.

The schedule below shows the City’s total general bond and lease debt service:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 78,828	\$ 350,845	\$ 429,673
2021	227,431	348,742	576,173
2022	234,089	342,006	576,095
2023	241,106	335,070	576,176
2024	248,182	327,926	576,108
Thereafter	10,292,674	6,189,647	16,482,321
Total	<u>\$ 11,322,310</u>	<u>\$ 7,894,236</u>	<u>\$ 19,216,546</u>

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 7 – Governmental activities – Long-Term Debt (continued)

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

	June 30, 2018	Additions	Deductions	June 30, 2019
General Obligation bond payable	\$ 10,402,000	\$ -	\$ -	\$ 10,402,000
Leases payable - building	1,069,310	-	(149,000)	920,310
Net Pension liability	10,444,165	887,365	-	11,331,530
Net OPEB liability	3,601,574	-	(304,190)	3,297,384
Compensated absences	897,147	-	(2,080)	895,067
Total debt outstanding	<u>\$ 26,414,196</u>	<u>\$ 887,365</u>	<u>\$ (455,270)</u>	<u>\$ 26,846,291</u>
Less current portion of:				
Leases payable				<u>\$ 78,828</u>
Current portion				<u>78,828</u>
Total long - term obligation				<u>\$ 26,767,463</u>

Note 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, 2019 is not readily available.

In May 2015, the City Council authorized issuance of Educational Facilities Revenue Refunding Bonds of approximately \$6,435,000 for assisting Berea College in refunding certain outstanding educational facilities revenue bonds. The amount of bonds outstanding at June 30, 2019 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.

Note 9 – Transfers

The following were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ 50,000	\$ 340,000
Tourism Fund	-	50,000
Industrial Development Fund	340,000	-
Total	<u>\$ 390,000</u>	<u>\$ 390,000</u>

The primary purpose of the interfund transfers was to transfer funds for the purpose of capital outlay.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan

County Employees' Retirement System (CERS)

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

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

Contributions – For the year ended June 30, 2019, 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 based on 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 based on 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, 2019, participating employers contributed 21.48% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The City contributed \$1,440,553 for the year ended June 30, 2019, or 100% of the required contribution. The contribution was allocated \$1,087,794 to the CERS pension fund and \$352,759 to the CERS insurance fund.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan (continued)

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

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

Cost of living adjustments are provided at the discretion of the General Assembly of the State of Kentucky. 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, 2019, the City reported a liability of \$15,273,694 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the City's proportion was .251 percent, which was an increase of .008 percent from its proportion at June 30, 2017 (.243 percent).

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan (continued)

For the year ended June 30, 2019, the City recognized pension expense of \$2,776,098. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 498,185	\$ 223,575
Changes of assumptions	1,492,682	-
Net difference between projected and actual earnings on Plan investments	710,238	893,378
Changes in proposition and differences between City contributions and proportionate share of contributions	542,483	-
City contributions subsequent to the measurement date	1,087,794	-
Total	\$ 4,331,382	\$ 1,116,953

The \$1,087,794 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,

2020	\$ 1,524,117
2021	808,577
2022	(124,080)
2023	(81,977)

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2018 were based on an actuarial valuation date of June 30, 2017. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan (continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

The mortality table used for active members is 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 long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 25 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan (continued)

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.97%	17.50%
Non-U.S. Equity	6.50%	17.50%
Global Bonds	3.00%	4.00%
Credit Fixed	8.50%	24.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Private Equity	6.50%	10.00%
Cash	1.50%	2.00%
	<u>6.09%</u>	<u>100.00%</u>

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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount Rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 19,227,997
Current discount rate	6.25%	\$ 15,273,694
1% increase	7.25%	\$ 11,960,678

Payable to the Pension Plan – At June 30, 2019, the City reported a payable of \$138,664 for the outstanding amount of contributions to the pension and OPEB plans required for the year ended June 30, 2019. The payable includes both the pension and insurance contribution allocation.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 10 - Retirement plan (continued)

457(b) and 401(k)

In addition, the City of Berea offers a 457(b) and a 401(k) retirement plan to all its employees. The plan consists of only employee contributions. The City of Berea has 56 participants in the 457(b) plan and 11 participants in the 401(k) plan. Employees can contribute 100% of includable compensation up to \$18,000 and an additional \$6,000 if 50 or older for calendar year 2018. During the fiscal year employees contributed \$146,342 to the 457(b) plan and \$29,425 to the 401(k) plan.

Note 11 – Post-Employment Benefits Other than Pensions (OPEB)

At June 30, 2019, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Outflows of Resources	<u>\$ 1,412,318</u>
Deferred Inflows of Resources	<u>\$ 845,027</u>
Net OPEB Liability:	<u>\$ 4,452,496</u>

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statute Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2019 was 5.26% of covered payroll. Contributions to the Insurance Fund from the City were \$352,761 for the year ended June 30, 2019. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Net OPEB Liability

For financial reporting the actuarial valuation as of June 30, 2018, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018, were based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018, using generally accepted actuarial principles.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rate	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Pre – 65	
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate Trend rate of 5.00% over a period of 2 years.

The mortality table used for active members is 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

Discount Rate

The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S. Equity	5.97%	17.50%
Non-U.S. Equity	6.50%	17.50%
Global Bonds	3.00%	4.00%
Credit Fixed	8.50%	24.00%
Real Estate	9.00%	5.00%
Absolute Return	5.00%	10.00%
Real Return	7.00%	10.00%
Private Equity	6.50%	10.00%
Cash	1.50%	2.00%
	6.09%	100.00%

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.85%) or one percentage point higher (6.85%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.85%	\$ 5,783,078
Current discount rate	5.85%	\$ 4,452,496
1% increase	6.85%	\$ 3,319,083

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower(6.0%) or one percentage point higher (8.0%) than current healthcare cost trend rates follows:

	Healthcare Cost Trend Rate		City's proportionate share of net OPEB liability
1% decrease	6.0%	\$	3,314,927
Current healthcare rate	7.0%	\$	4,452,496
1% increase	8.0%	\$	5,793,362

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the City reported a liability of \$4,452,496 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2018. This method to be reflective of the employers' long-term contribution effort. At June 30, 2018, the City's proportion was 0.250777%

For the year ended June 30, 2019, the City recognized OPEB expense of \$584,477. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 98,500	\$ 9,171
Implicit subsidy	71,828	-
Differences between expected and actual results	-	518,879
Changes of assumptions	889,229	10,287
Net difference between projected and actual earnings on Plan investments	-	306,690
City contributions subsequent to the measurement date	352,761	-
Total	\$ 1,412,318	\$ 845,027

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 11 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The \$352,761 of deferred outflows of resources resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2020	\$ 32,289
2021	32,289
2022	32,289
2023	91,854
2024	(22,285)
Thereafter	(23,735)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net OPEB liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified OPEB plan and recorded as a component of OPEB expense beginning with the period in which they are incurred.

Note 12 - Property tax rates and calendar

Property taxes for fiscal year 2019 were levied in November 2018 on the assessed property located in the City of Berea as of the preceding January 1. The rate for real and personal property was 10.2 cents per one hundred dollars of assessed value. The assessments are determined by the County Property Valuation Administrator in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	
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.

Note 13 - Risk management

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

City of Berea, Kentucky
Notes to Financial Statements
June 30, 2019

Note 14 - Related organization

Organizations for which a primary government is accountable because it appoints a voting majority of the board, but is not financially accountable, are considered related organizations. The Housing Authority of Berea is a related organization of the City. The City appoints a voting majority of the Housing Authority's board but has no further accountability. The Housing Authority was established to provide public housing for certain families within City limits. The Housing Authority does not meet the definition of a component unit but is considered a related party of the City.

Note 15 - Tax abatements

The City negotiates tax abatement agreements on an individual basis. The City has tax abatement agreements with two companies, Hitachi Automotive and Stemco LP, which were entered into via cooperation with the Kentucky Economic Development Finance Authority. The agreement with Hitachi Automotive is to offer incentives for the company to utilize the premises previously occupied by Panasonic Manufacturing Company on Mayde Road within City limits. The agreement with Stemco LP is to provide incentives for the company to renovate and expand an existing manufacturing facility located at 159 Glades Road within City limits. Both tax abatements call for the City to forego 1% of the occupational license fee imposed on certain employees of the companies. KRS 154.32-090 permits the City to forego 1% of any occupational license fee imposed via credits against the City's occupational license fee for employees of an eligible company as an additional incentive. Both agreements were in effect during fiscal year 2019, however no occupational license fees were foregone during fiscal year 2019.

Note 16 – Recently Issued Accounting Standards

GASB Statement No. 84—In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019–20 fiscal year. The City has not determined the effect of this pronouncement.

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or the 2020-21 fiscal year. The City has not determined the effect of this pronouncement.

Required Supplementary Information

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Municipal taxation				
General property taxes	\$ 675,000	\$ 675,000	\$ 736,786	\$ 61,786
State assessment property taxes	13,000	13,000	15,808	2,808
In lieu of property tax	22,000	20,000	22,866	2,866
Delinquent property taxes	10,000	10,000	8,026	(1,974)
Bank deposit taxes	63,344	67,436	67,687	251
Motor vehicle taxes	48,000	48,000	68,212	20,212
	<u>831,344</u>	<u>833,436</u>	<u>919,385</u>	<u>85,949</u>
Licenses, permits, billings				
Occupational license fees				
Insurance	750,000	800,000	1,068,167	268,167
Employee withholding	5,700,000	6,000,000	6,652,434	652,434
Net profits	850,000	850,000	966,561	116,561
Individual	25,000	25,000	63,031	38,031
Business	9,000	9,000	12,575	3,575
ABC	10,000	10,000	30,647	20,647
Utility franchise fees	1,055,000	1,058,000	1,165,510	107,510
Building permits	65,000	65,000	65,655	655
Electric permits	40,000	40,000	36,551	(3,449)
Street cut permits	200	1,000	1,700	700
	<u>8,504,200</u>	<u>8,858,000</u>	<u>10,062,831</u>	<u>1,204,831</u>
Charges for service				
Court costs & fees	12,000	12,000	17,309	5,309
Accident reports	2,000	1,000	3,770	2,770
Codes - plat review fee	3,500	3,500	7,264	3,764
Police special services	15,000	15,000	22,767	7,767
Demolition cleanup	100	700	683	(17)
Parks concessions	14,000	14,000	11,328	(2,672)
Pool concessions	22,000	22,000	23,252	1,252
Swimming pool fees	60,000	60,000	64,632	4,632
Softball fees	200	200	-	(200)
Miscellaneous	1,200	1,200	3,172	1,972
	<u>130,000</u>	<u>129,600</u>	<u>154,177</u>	<u>24,577</u>
Fines and forfeits				
Fingerprint charges	900	900	1,149	249
Court restitution	100	100	380	280
Codes violations	1,600	10,628	10,744	116
Penalties and interest	21,000	21,000	42,128	21,128
Parking fines	3,500	3,500	10,575	7,075
	<u>27,100</u>	<u>36,128</u>	<u>64,976</u>	<u>28,848</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Intergovernmental revenues				
County school-police contract	\$ 70,000	\$ 70,000	\$ 98,684	\$ 28,684
Madison county grants	38,000	38,000	38,000	-
Other grants	150,000	50,000	26,826	(23,174)
Volunteer fire state aid	11,000	10,500	10,500	-
Police incentive pay	140,000	140,000	151,436	11,436
Fire incentive pay	101,000	101,000	118,798	17,798
	<u>510,000</u>	<u>409,500</u>	<u>444,244</u>	<u>34,744</u>
Other revenue				
Rental income	79,675	80,275	80,681	406
Interest income	36,170	36,170	136,142	99,972
Insurance proceeds	-	-	19,800	19,800
Miscellaneous	8,000	14,066	22,187	8,121
	<u>123,845</u>	<u>130,511</u>	<u>258,810</u>	<u>128,299</u>
Total revenue	<u>10,126,489</u>	<u>10,397,175</u>	<u>11,904,423</u>	<u>1,507,248</u>
Expenses				
Administration				
General government				
Personnel	14,940	14,940	14,648	292
Utilities	61,200	61,200	67,759	(6,559)
Materials and supplies	14,500	14,500	12,558	1,942
Services and support	436,200	523,710	485,816	37,894
Other expenditures	5,000	5,000	4,772	228
Administration				
Personnel	276,968	276,968	269,825	7,143
Materials and supplies	17,900	16,900	8,966	7,934
Services and support	130,200	130,600	160,337	(29,737)
Other expenditures	11,300	9,800	4,997	4,803
City council				
Personnel	56,900	56,900	54,771	2,129
Services and support	60,600	60,600	59,196	1,404
Other expenditures	376,300	376,300	345,384	30,916
Finance office				
Personnel	600,500	600,500	356,416	244,084
Materials and supplies	32,500	32,500	10,272	22,228
Services and support	242,500	242,500	101,819	140,681
Other expenditures	11,500	11,500	2,229	9,271
Total Administration	<u>2,349,008</u>	<u>2,434,418</u>	<u>1,959,765</u>	<u>474,653</u>
Police				
Personnel	2,845,500	2,855,500	2,577,783	277,717
Utilities	18,500	18,500	19,049	(549)
Materials and supplies	175,000	185,000	180,328	4,672
Services and support	76,000	76,000	48,518	27,482
Other expenditures	43,500	50,500	54,240	(3,740)
Total police department	<u>\$ 3,158,500</u>	<u>\$ 3,185,500</u>	<u>\$ 2,879,918</u>	<u>\$ 305,582</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Fire				
Personnel	\$ 2,014,158	\$ 2,014,158	\$ 1,810,085	\$ 204,073
Utilities	12,800	12,800	9,567	3,233
Materials and supplies	242,500	242,500	139,590	102,910
Services and support	88,200	88,200	45,145	43,055
Other expenditures	29,000	29,000	19,431	9,569
Total fire department	<u>2,386,658</u>	<u>2,386,658</u>	<u>2,023,818</u>	<u>362,840</u>
Public works				
Personnel	1,491,784	1,491,784	1,310,940	180,844
Utilities	130,250	135,250	125,408	9,842
Materials and supplies	330,000	330,000	133,521	196,479
Services and support	405,200	405,200	324,976	80,224
Other expenditures	8,500	8,500	7,632	868
Total public works	<u>2,365,734</u>	<u>2,370,734</u>	<u>1,902,477</u>	<u>468,257</u>
Codes enforcement				
Personnel	456,291	456,291	369,816	86,475
Materials and supplies	22,000	22,000	13,744	8,256
Services and support	40,000	43,000	19,512	23,488
Other expenditures	12,500	12,500	8,106	4,394
Total codes enforcement	<u>530,791</u>	<u>533,791</u>	<u>411,178</u>	<u>122,613</u>
Parks and recreation				
Parks and recreation				
Personnel	355,983	360,289	340,674	19,615
Utilities	94,090	94,090	91,831	2,259
Materials and supplies	62,200	62,700	45,205	17,495
Services and support	134,800	185,100	60,343	124,757
Other expenditures	33,800	33,800	29,696	4,104
Pool				
Personnel	82,891	82,891	73,899	8,992
Utilities	20,400	20,400	18,774	1,626
Materials and supplies	50,650	50,650	41,554	9,096
Services and support	34,000	34,000	34,209	(209)
Other expenditures	11,000	11,000	5,773	5,227
Intergenerational center				
Utilities	18,700	18,700	15,355	3,345
Services and support	10,000	10,000	17,808	(7,808)
Total parks and recreation	<u>\$ 908,514</u>	<u>\$ 963,620</u>	<u>\$ 775,121</u>	<u>\$ 188,499</u>

City of Berea, Kentucky
General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
GIS/Surveying				
Personnel	\$ 161,597	\$ 161,597	\$ 144,211	\$ 17,386
Materials and supplies	16,300	16,300	2,711	13,589
Services and support	18,050	18,050	13,739	4,311
Other expenditures	18,300	18,300	10,115	8,185
Total GIS/surveying	<u>214,247</u>	<u>214,247</u>	<u>170,776</u>	<u>43,471</u>
Business development				
Personnel	141,514	155,614	40,203	115,411
Materials and supplies	6,050	6,050	674	5,376
Services and support	20,100	20,100	6,438	13,662
Other expenditures	57,800	57,800	15,613	42,187
Total business development	<u>225,464</u>	<u>239,564</u>	<u>62,928</u>	<u>176,636</u>
Information technology				
Personnel	81,136	81,136	76,568	4,568
Utilities	79,000	80,000	97,450	(17,450)
Materials and supplies	12,500	12,500	4,397	8,103
Services and support	22,550	28,550	11,995	16,555
Other expenditures	6,000	6,000	793	5,207
Total information technology	<u>201,186</u>	<u>208,186</u>	<u>191,203</u>	<u>16,983</u>
Capital outlay	<u>2,316,607</u>	<u>2,617,850</u>	<u>1,510,491</u>	<u>1,107,359</u>
Debt service	<u>260,000</u>	<u>260,000</u>	<u>256,488</u>	<u>3,512</u>
Total expenditures	<u>14,916,709</u>	<u>15,414,568</u>	<u>12,144,163</u>	<u>3,270,405</u>
Other financing sources (uses)				
Proceeds from sale of assets	-	10,000	44,212	34,212
Transfers in (out)	411,457	50,000	(290,000)	(340,000)
Total other financing sources (uses)	<u>411,457</u>	<u>60,000</u>	<u>(245,788)</u>	<u>(305,788)</u>
Net change in fund balance	<u>\$ (4,378,763)</u>	<u>\$ (4,957,393)</u>	<u>\$ (485,528)</u>	<u>\$ (2,068,945)</u>

City of Berea, Kentucky
Tourism Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance-Budget and Actual
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Municipal taxation				
Transient room tax	\$ 150,000	\$ 150,000	\$ 186,461	\$ 36,461
Restaurant tax	950,000	950,000	1,111,433	161,433
Intergovernmental				
Grant revenues	15,000	15,000	16,309	(1,309)
Charges for service				
Workshop fees	150,000	150,000	127,920	(22,080)
Other revenue				
Miscellaneous	51,700	51,700	56,109	4,409
Total revenue	<u>1,316,700</u>	<u>1,316,700</u>	<u>1,498,232</u>	<u>178,914</u>
Tourism				
Personnel	466,000	466,000	395,148	70,852
Utilities	69,000	69,000	37,537	31,463
Materials and supplies	50,700	50,700	13,172	37,528
Services and support	513,000	513,000	460,043	52,957
Other expenditures	471,500	471,500	310,802	160,698
Capital outlay	400,000	400,000	-	400,000
Debt service	184,000	184,000	176,831	7,169
Total expenditures	<u>2,154,200</u>	<u>2,154,200</u>	<u>1,393,533</u>	<u>760,667</u>
Other financing sources (uses)				
Financing proceeds	-	-	-	-
Transfers in (out)	50,000	50,000	(50,000)	(100,000)
Total other financing sources (uses)	<u>50,000</u>	<u>50,000</u>	<u>(50,000)</u>	<u>(100,000)</u>
Net change in fund balance	<u>\$ (887,500)</u>	<u>\$ (887,500)</u>	<u>\$ 54,699</u>	<u>\$ (481,753)</u>

City of Berea, Kentucky
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Six Fiscal Years

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>
City's proportion of the net pension liability	0.223%	0.223%	0.226%	0.220%	0.243%	0.251%
City's proportionate share of the net pension liability	\$ 8,187,448	\$ 7,241,715	\$ 9,697,588	\$ 11,301,398	\$ 14,197,959	\$ 15,273,694
City's covered-employee payroll	\$ 5,223,676	\$ 5,394,952	\$ 5,636,670	\$ 6,092,638	\$ 6,370,339	\$ 6,706,498
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	156.74%	134.23%	172.04%	185.49%	222.88%	227.74%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.50%	53.54%

City of Berea, Kentucky
Schedule of the City's Pension Contributions
County Employees' Retirement System
Last Six Fiscal Years

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Contractually required contribution	\$ 717,733	\$ 687,771	\$ 700,074	\$ 849,923	\$ 922,430	\$ 1,087,794
Contributions in relation to the contractually required contribution	717,733	687,771	700,074	849,923	922,430	1,087,794
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 5,223,674	\$ 5,394,952	\$ 5,636,670	\$ 6,092,638	\$ 6,370,339	\$ 6,706,498
Contributions as a percentage of covered employee	13.74%	12.75%	12.42%	13.95%	14.48%	16.22%

City of Berea, Kentucky
Schedule of the City's OPEB Contributions
County Employees' Retirement System
Last Two Fiscal Years

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Contractually required contribution	\$ 299,408	\$ 352,761
Contributions in relation to the contractually required contribution	<u>299,408</u>	<u>352,761</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 6,370,339	\$ 6,706,498
Contributions as a percentage of covered-employee payroll	4.70%	5.26%

City of Berea, Kentucky
Schedule of Changes in the City's OPEB Liability
County Employees' Retirement System
Last Two Fiscal Years
(\$ in thousands)

Change in the Net OPEB Liability	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Total OPEB liability		
Service Cost	\$ 207	\$ 307
Interest	584	607
Benefit Changes	-	11
Difference between actual and expected experience	(16)	(603)
Assumption Changes	1,262	(12)
Benefit Payments	<u>(340)</u>	<u>(392)</u>
Net Change on Total OPEB Liability	1,697	(82)
Total OPEB Liability - Beginning	8,546	10,589
Total OPEB Liability - Ending	<u>\$ 10,243</u>	<u>\$ 10,507</u>
Fiduciary Net Position		
Contributions - Employer	\$ 323	\$ 366
Contributions - Member	22	27
Benefit Payments	(340)	(392)
Net Investment Income	642	507
Administrative Expense	(2)	(2)
Other	<u>-</u>	<u>-</u>
Net Change in Fiduciary Net Position	645	506
Fiduciary Net Position - Beginning	4,722	5,548
Fiduciary Net Position - Ending	<u>\$ 5,367</u>	<u>\$ 6,054</u>
Net OPEB Liability - Ending	4,876	4,453
Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.4%	57.6%
Covered Payroll	\$ 6,370	\$ 6,706
Net OPEB Liability as a Percentage of Covered Payroll	76.5%	66.4%

SUPPLEMENTAL INFORMATION

City of Berea, Kentucky
Proprietary Fund
Budget Information
For the Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Berea Municipal Utilities				
Administration				
Personnel	\$ 738,000	\$ 680,500	\$ 992,693	\$ (312,193)
Utilities	72,700	76,000	63,419	12,581
Materials and supplies	35,300	35,300	34,580	720
Services and support	262,450	295,701	371,635	(75,934)
Other expenses	14,000	22,500	17,950	4,550
	<u>1,122,450</u>	<u>1,110,001</u>	<u>1,480,277</u>	<u>(370,276)</u>
Electric				
Personnel	666,500	635,500	666,712	(31,212)
Utilities	3,150	4,150	2,625	1,525
Materials and supplies	55,300	55,300	40,242	15,058
Services and support	10,188,500	10,431,000	9,342,093	1,088,907
Other expenditures	223,500	149,500	63,368	86,132
	<u>11,136,950</u>	<u>11,275,450</u>	<u>10,115,040</u>	<u>1,160,410</u>
Water				
Personnel	492,180	482,180	548,496	(66,316)
Utilities	225,600	255,600	273,014	(17,414)
Materials and supplies	144,300	148,300	122,770	25,530
Services and support	364,500	362,500	350,263	12,237
Other expenditures	36,000	36,000	12,732	23,268
	<u>1,262,580</u>	<u>1,284,580</u>	<u>1,307,275</u>	<u>(22,695)</u>
Sewer				
Personnel	647,200	660,500	709,605	(49,105)
Utilities	188,300	213,300	188,372	24,928
Materials and supplies	77,300	83,300	71,703	11,597
Services and support	359,800	386,800	371,635	15,165
Other expenditures	22,200	61,500	45,998	15,502
	<u>1,294,800</u>	<u>1,405,400</u>	<u>1,387,313</u>	<u>18,087</u>
Total expenses	<u><u>\$ 14,816,780</u></u>	<u><u>\$ 15,075,431</u></u>	<u><u>\$ 14,289,905</u></u>	<u><u>\$ 785,526</u></u>

**City of Berea, Kentucky
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019**

	Municipal Road Aid Fund	Industrial Development Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	Total
ASSETS						
Cash and cash equivalents	\$ 473,916	\$ 110,352	\$ 91,309	\$ 81,453	\$ 120,460	\$ 877,490
Investments	-	106,285	-	-	-	106,285
Accounts receivable	25,683	-	-	-	-	25,683
Interest receivable	-	808	-	-	-	808
Other assets	-	-	-	4,911	-	4,911
Due from other fund	-	-	-	-	-	-
Total Assets	<u>\$ 499,599</u>	<u>\$ 217,445</u>	<u>\$ 91,309</u>	<u>\$ 86,364</u>	<u>\$ 120,460</u>	<u>\$ 1,015,177</u>
LIABILITIES AND FUND BALANCE						
Accounts payable	\$ 83,326	21,810	\$ -	\$ 2,348	\$ -	\$ 107,484
Unearned revenue	-	-	-	17,470	-	17,470
Due to other fund	-	53,545	-	-	-	53,545
Total Liabilities	83,326	75,355	-	19,818	-	178,499
Fund Balance, nonspendable	-	-	-	4,911	-	4,911
Fund Balance, restricted	416,273	-	91,309	-	-	507,582
Fund Balance, assigned	-	142,090	-	61,635	120,460	324,185
Total Fund Balance	<u>416,273</u>	<u>142,090</u>	<u>91,309</u>	<u>66,546</u>	<u>120,460</u>	<u>836,678</u>
Total Liabilities and Fund Balance	<u>\$ 499,599</u>	<u>\$ 217,445</u>	<u>\$ 91,309</u>	<u>\$ 86,364</u>	<u>\$ 120,460</u>	<u>\$ 1,015,177</u>

City of Berea, Kentucky
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
Nonmajor Governmental Funds
June 30, 2019

	Municipal Road Aid Fund	Industrial Development Fund	Police Restricted Fund	Berea Craft Festival Fund	US 25 North Fund	Total
Revenues						
Intergovernmental revenues	\$ 281,862	\$ -	\$ 13,285	\$ -	\$ -	\$ 295,147
Charges for services	-	-	-	58,041	-	58,041
Other revenues	271	17,853	89	375	84	18,672
Total Revenues	282,133	17,853	13,374	58,416	84	371,860
Expenditures						
General administrative	-	22,491	-	-	-	22,491
Police department	-	-	1,737	-	-	1,737
Street department	322,086	-	-	-	-	322,086
Tourism	-	-	-	43,164	-	43,164
State contracts	-	-	-	-	-	-
Capital outlay	-	341,339	43,041	-	-	384,380
Total expenditures	322,086	363,830	44,778	43,164	-	773,858
Excess revenues over (under) expenditures before other sources (uses)	(39,953)	(345,977)	(31,404)	15,252	84	(401,998)
Other financing sources						
Transfers from (to) other funds	-	340,000	-	-	-	340,000
Excess revenues and other sources over (under) expenditures	(39,953)	(5,977)	(31,404)	15,252	84	(61,998)
Fund balances July 1, 2018	456,226	148,067	122,713	51,294	120,376	898,676
Fund balances June 30, 2019	\$ 416,273	\$ 142,090	\$ 91,309	\$ 66,546	\$ 120,460	\$ 836,678

City of Berea, Kentucky
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor Program Title	CFDA	Pass Through Contract Number	Federal Expenditures
Executive Office of the President			
High Intensity Drug Trafficking Areas Program	95.001	n/a	\$ 15,620
Department of Transportation			
State and Community Highway Safety (see note 4)	20.600	PT-2018-HY-3 1800004490	3,893
National Recreational Trails Fund (see note 4)	20.219	RTP 519-15 1700000425	<u>7,250</u>
Total Department of Transportation			11,143
United States Department of Agriculture			
Community Facilities Loans and Grants	10.766	n/a	139,313
Watershed Protection and Flood Prevention	10.904	n/a	<u>121,101</u>
Total Department of Agriculture			260,414
Total expenditures of federal awards			<u><u>\$ 287,177</u></u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Berea and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers. Retainage payable on the government-wide statements is excluded as an expenditure.

Note 2: Indirect Cost Rates

The City of Berea did not elect to use the 10 percent *de minimis* cost rate as allowed under the Uniform Guidance .

Note 3: The City did not pass through any funds to subrecipients.

Note 4: Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet

**INDEPENDENT AUDITOR'S 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 Mayor and City Council
City of Berea, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Berea, Kentucky's basic financial statements and have issued our report thereon dated October 10, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Berea, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Berea, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Berea, Kentucky's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employee, 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 material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
Richmond, Kentucky
October F€, 2019