



## **City of Berea, Kentucky**

Independent Auditors' Report

And Financial Statements

For the Year Ended

June 30, 2020

City of Berea, Kentucky  
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## 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, 2020, 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, 2020, 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 and budgetary comparison information on pages 61-63 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 64 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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 16, 2020 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 2019 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 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 16, 2020

**City of Berea, Kentucky  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020**

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, 2020. Please read the following in conjunction with the auditors' report on pages 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**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2020 Total Primary Government</b>	<b>2019 Total Primary Government</b>
Current Assets	\$ 14,821,751	\$ 14,509,412	\$ 29,331,163	\$ 25,310,448
Capital Assets	37,804,416	38,618,153	76,422,569	76,928,662
Other Noncurrent Assets	-	7,747,024	7,747,024	5,582,623
Total Assets	<u>52,626,167</u>	<u>60,874,589</u>	<u>113,500,756</u>	<u>107,821,733</u>
Deferred Outflows of Resources	<u>5,132,589</u>	<u>1,847,664</u>	<u>6,980,253</u>	<u>6,242,025</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 57,758,756</u>	<u>\$ 62,722,253</u>	<u>\$ 120,481,009</u>	<u>\$ 114,063,758</u>
Current Liabilities	1,039,597	4,015,507	5,055,104	5,042,438
Long-term Liabilities	<u>28,708,043</u>	<u>15,197,089</u>	<u>43,905,132</u>	<u>43,125,842</u>
Total Liabilities	<u>29,747,640</u>	<u>19,212,596</u>	<u>48,960,236</u>	<u>48,168,280</u>
Deferred Inflows of Resources	<u>1,781,396</u>	<u>496,433</u>	<u>2,277,829</u>	<u>1,961,980</u>
Net Position:				
Invested in Capital Assets				
Net of Related Debt	26,637,105	27,575,930	54,213,035	52,806,175
Restricted	379,114	7,015,567	7,394,681	5,349,572
Unrestricted	<u>(786,499)</u>	<u>8,421,727</u>	<u>7,635,228</u>	<u>5,777,751</u>
Total Net Position	<u>26,229,720</u>	<u>43,013,224</u>	<u>69,242,944</u>	<u>63,933,498</u>
Total Liabilities and Net Position	<u>\$ 57,758,756</u>	<u>\$ 62,722,253</u>	<u>\$ 120,481,009</u>	<u>\$ 114,063,758</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 increased by over \$4 million from the prior year. This is primarily due to an increase of over \$3.5 million in unrestricted cash within BMU resulting from savings in the purchase of power costs. BMU restricted cash also increased as a result of these savings, accounting for a \$2 million increase in other noncurrent assets.

Current assets within Governmental Activities increased only slightly, despite a \$135,000 prepaid payment toward a fire truck to be received in FY21 and a \$779,000 receivable for CARES, Act funding. These increases were offset by a nearly \$700,000 decrease in cash.

City-wide, capital assets decreased by slightly more than \$500,000 as a result of depreciation and disposals exceeding capital asset additions.

The City's deferred outflows of resources consist primarily of deferred contributions toward pension and OPEB expenses. These amounts fluctuate based on pension contribution rates and other factors outside the control of the City. For FY20, there was an increase of \$821,000. Also included in deferred outflows of resources is the deferred savings from the defeasance of the 2005 Utility



Revenue Bonds. This deferred amount is amortized over the life of the bonds, and therefore decrease each year by approximately \$83,000.

The City's current liabilities remained consistent with the prior year. The City made debt service payments, totaling \$1.9 million. Net pension liability increased by nearly \$3 million. In total, long-term liabilities decreased by nearly \$800,000.

Deferred inflows of resources increased by nearly \$316,000. Like deferred outflows, deferred inflows 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 \$69,242,944. This was an 8 percent increase in net position from the net position of the prior fiscal year. By far the largest portion of the City's net position (78%) reflects its investment of \$54.2 million in capital assets less related debt used to acquire or construct those assets that is still outstanding. The City uses these capital assets to provide services to the public. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$7.4 million (11%), represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net position, \$7.6 million (11%), may be used to meet the city's on-going obligations to the public and creditors.

However, it should be noted that while on a City-wide basis there is \$7.6 million in unrestricted net position, the Governmental Activities has a \$786,000 deficit of unrestricted net position. This deficit represents what is expected to be recovered from the City's future revenue. It is important to note that much of this deficit is due to net pension and OPEB liabilities. Much of this deficit is due to the City's share of net pension and OPEB liabilities.

Further details of the changes in net position between fiscal years 2020 and 2019 can be observed in Table 2.

**Table 2  
Changes in Net Position**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2020 Total Primary Government</b>	<b>2019 Total Primary Government</b>
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 293,620	\$ 18,694,219	\$ 18,987,839	\$ 19,328,859
Operating Grants & Contributions	1,747,877	-	1,747,877	728,873
Capital Grants & Contributions	1,146,000	1,233,742	2,379,742	2,329,746
General Revenue			-	-
Taxes	2,146,858		2,146,858	2,217,278
License fees	9,558,056		9,558,056	9,958,926
Permits	228,975		228,975	103,906
Investment Earnings	192,081	134,253	326,334	258,040
Other Revenues	143,773		143,773	243,376
<b>Total Revenues</b>	<u>15,457,240</u>	<u>20,062,214</u>	<u>35,519,454</u>	<u>35,169,004</u>
<u>Program Expenses</u>				
General Government	2,837,928	-	2,837,928	2,758,145
Public Safety - Police	3,857,297	-	3,857,297	3,489,524
Public Safety - Fire	2,700,929	-	2,700,929	2,533,765
Public Works	3,251,127	-	3,251,127	3,192,170
Codes enforcement	495,953	-	495,953	486,008
Parks and Recreation	884,353	-	884,353	1,010,396
GIS/Surveying	231,236	-	231,236	209,755
Business Development	114,169	-	114,169	82,514
Tourism	1,094,468	-	1,094,468	1,353,967
Information Technology	222,898	-	222,898	221,822
Interest on Long-term Debt	348,380	-	348,380	375,200
Utilities	-	14,174,046	14,174,046	17,006,568
<b>Total Program Expenses</b>	<u>16,038,738</u>	<u>14,174,046</u>	<u>30,212,784</u>	<u>32,719,834</u>
Gain/(Loss) on Sale of Property	<u>(838)</u>	<u>3,614</u>	<u>2,776</u>	<u>(300,611)</u>
<b>Change in Net Position</b>	<u>\$ (582,336)</u>	<u>\$ 5,891,782</u>	<u>\$ 5,309,446</u>	<u>\$ 2,148,559</u>

**Governmental Activities**

Governmental activities decreased the City's total net position by \$582,336. Overall, governmental revenue was down by roughly \$404,000 from the previous year. Much of this can be attributed to the effects of COVID-19. Prior to March, revenue from occupational license fees (OLF) on wages

was consistent with the prior to year. Because of several business closures, including several temporary shutdowns from the City's industrial base, OLF on wages was down by almost \$200,000 from the prior year by year end. Restaurant and Transient Room Tax also suffered decreases of approximately \$88,000. While these decreases are not unexpected given the circumstances, it was less severe than had originally been feared.

Likewise, COVID-19 affected revenue related to events and facilities that were canceled or closed. The parks department was unable to have spring sporting events and the Berea Pool was unable to open for the 2020 swim season. As a result, the City did not receive over \$50,000 in revenue related to these activities. It is important to note, however, that there is an offsetting decrease in expenditures due to these closures and cancellations. This is discussed in more detail on pages 10-11

OLF on net profits saw a \$220,000 decrease in FY20. This decrease does not appear to be related to COVID-19, as this revenue associated with business net profits earned in tax year 2019. We do not anticipate seeing the effects of COVID-19 on business profits until tax year 2020 which will be collected in fiscal year 2021.

A more positive effect of COVID-19 was the City's receipt of federal assistance. Through the CARES Act, the city was awarded \$1.14 million of Coronavirus Relief Funds. Of this, \$779,000 was included as revenue in FY20. The remaining will be recognized in FY21.

Unrelated to COVID-19, the City has a \$110,000 increase in building permits resulting from increased building permit fees enacted during FY20. Large construction projects conducted by Berea College and a local manufacturer contributed to this increase, as well as a robust residential housing market. Additionally, the City received contributed capital valued at \$1,146,000 for city streets, curbs and gutters within the multiple subdivisions. Once accepted, the City takes over maintenance of this infrastructure. In the prior year, the City had accepted streets valued at \$2,086,250.

Total program expenses increased by slightly more than \$325,000. Included in the City's change in net position are several 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 are not cash expenditures of the City. Changes in net pension liability and OPEB liabilities attributed to approximately \$190,000 of increased expenses above the prior year. 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 more than \$96,000 of the increase in program expenses.

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 \$5.9 million. Revenue from the sale of electric decreased by nearly \$739,000, primarily due to an usually mild winter. Electric consumption was down by 7.6 percent.

Water and wastewater revenue increased by \$133,000 and \$184,000, respectively. Prior to March 2020, water consumption was up by nearly 4 percent across all rate classes, including wholesale water. However, due to shutdowns related to COVID-19, there was a considerable drop in water consumption in the commercial and industrial customer classes resulting in an overall 7 percent decrease in consumption within these classes. Wholesale and residential water consumption increases compensated for some of losses in other classes, resulting in an overall consumption

roughly equal to the prior year. Increases in revenue were predominately a result of rate increases that went into effect in July 2019.

COVID-19 also negatively affected the Utilities' revenue from disconnection charges and penalties and interest as a result of executive orders from the Mayor halting the collection of these fees in early March. At the end of FY20, there was approximately a \$54,000 decrease in revenue from these sources.

Berea Municipal Utilities continues to receive grant funding for a number of projects. Revenue from grant funding will vary each year depending on the active projects and the funding available. Approximately \$561,000 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. Additionally, the City received approximately \$610,000 in grant funding for the Walnut Meadow Pump Station Upgrade. This project is necessary to accommodate sewer service for the growth around the Exit 77 area.

Total operating expenses for business-type activities decreased by \$2.8 million. By far, the biggest contributing factor in this decrease resulted from new purchase power contracts that went into effect on May 1, 2019. At that time, 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. Purchase power costs in FY20 were nearly \$3.1 million lower than in FY19.

Administrative, sewer and other electric operating costs showed only slight increases (approx. 1%) from the prior year. Operating costs for the water division increase by \$145,000 (11%). Much of this increase resulted from pension and OPEB expenses as well as increased legal fees associated with the B Lake Spillway project that was concluded in FY20.

Because disconnections for non-payments were discontinued during the COVID-19 state of emergency, accounts receivable balances have increased significantly. In anticipation that many customers will not be able to make up these balances within the foreseeable future, the allowance for doubtful accounts has been increased. As a result, bad debt write-off expenses across all divisions increased by nearly \$60,000.

## **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**

	<b>2020</b>	<b>2019</b>
<b>Revenues</b>		
Taxes	\$ 2,146,858	\$ 2,217,279
Licenses and permits	9,787,031	10,062,831
Charges for Services	293,620	755,700
Fines & Forfeits	47,650	340,138
Intergovernmental	1,747,877	66,443
Other Revenues	288,204	332,124
<b>Total Revenues</b>	<u>14,311,240</u>	<u>13,774,515</u>
<b>Expenditures</b>		
General Government	2,129,684	1,982,256
Public Safety - Police	3,100,378	2,881,655
Public Safety - Fire	2,130,954	2,023,818
Public Works	2,283,733	2,224,563
Codes Enforcement	405,479	411,178
Parks and Recreation	605,298	775,121
GIS/Surveying	190,729	170,776
Business Development	107,748	62,928
Information Technology	173,467	191,203
Tourism	928,397	1,259,866
Capital Outlay	1,063,225	1,894,871
Debt Service	503,616	433,319
<b>Total Expenditures</b>	<u>13,622,708</u>	<u>14,311,554</u>
Excess revenues over (under) before other sources (uses)	<u>688,532</u>	<u>(537,039)</u>
<b>Other Financing Sources (Uses)</b>		
Proceeds from sale of assets	105,893	44,212
<b>Total Other Financing Sources (Uses)</b>	<u>105,893</u>	<u>44,212</u>
<b>Net Change in Fund Balance</b>	<u>\$ 794,425</u>	<u>\$ (492,827)</u>

Total fund balance for all governmental funds has increased by \$794,425 from the prior year. The majority of this increase is from General Fund with an increase of 864,352. Tourism's fund balance increased by \$164,571. The fund balances for Municipal Road Aid decreased by \$123,1106 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 \$11,552.

In the prior discussion of changes in net position, it was noted that governmental revenue had decreased by \$404,000 from the previous year. However, much of that decrease resulted from non-cash contributions of capital which do not appear on the fund statements. On a fund level, governmental revenue increased by \$537,000. This increase is predominately due to a \$959,000

increase in grant proceeds, including the \$779,000 of Coronavirus Relief Funds mentioned previously.

Expenditures decreased by \$689,000. The majority of this decrease was directly related to actions taken surrounding the uncertainty of the COVID-19 situation. In early March, all non-essential spending was ceased, including the purchase of capital equipment and vehicles. All capital projects not actively under construction were also placed on hold. As a result, there was a \$832,000 decrease in capital outlay. Additionally, the cancellation of several events, and inability to open the pool, the parks department saw a \$170,000 decrease in expenditures and tourism saw a \$331,000 decrease.

Other departments saw moderate increases, primarily related to personnel costs. Overall, personnel expenditures rose \$422,000 (5%) over the prior year.

### **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**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Taxes	\$ 830,480	\$ 936,819	\$ 106,339
Licenses, Permits & Billings	8,901,000	9,787,031	886,031
Charges for Services	130,800	98,791	(32,009)
Fines & Forfeitures	27,700	46,491	18,791
Intergovernmental	1,107,750	1,459,543	351,793
Other Revenue	116,300	234,761	118,461
	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Revenues	<u>\$ 11,114,030</u>	<u>\$ 12,563,436</u>	<u>\$ 1,449,406</u>

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

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Administration	\$ 2,352,918	\$ 2,129,669	\$ (223,249)
Police	3,308,000	3,093,283	(214,717)
Fire	2,408,800	2,130,954	(277,846)
Public Works	2,426,385	1,889,734	(536,651)
Codes Enforcement	470,148	405,479	(64,669)
Parks & Recreation	905,031	605,298	(299,733)
GIS/Surveying	232,047	190,729	(41,318)
Information Technology	218,749	173,467	(45,282)
Business Development	219,150	107,748	(111,402)
Capital Outlay	3,404,542	1,021,258	(2,383,284)
Debt Service	325,062	325,063	1
	<u>\$ 16,270,832</u>	<u>\$ 12,072,682</u>	<u>\$ (4,198,150)</u>
Total Expenditures	<u>\$ 16,270,832</u>	<u>\$ 12,072,682</u>	<u>\$ (4,198,150)</u>

The City historically budgets revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. As a result, revenue exceeded budgeted amounts by \$1.4 million, despite the loss of revenue related to COVID-19. Only one revenue category fell below its budgeted amount. Charges for Services were \$32,000 below budget specifically due to the cancelation of the 2020 swimming season and spring sports.

The City budgets expenditures based on realistic estimates of expenses but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. As mentioned earlier, all non-essential spending was ceased in early March 2020 as a reaction to the uncertainty surrounding COVID-19's economic effect. As a result, total expenditures were \$4.2 million under budget. More than half (\$2.4 million) of the unexpended budget was for capital projects and equipment purchases that were stopped as a result of the spending freeze.

### **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, 2020, totals \$76,422,569, a one percent decrease from the prior year. Decreases occur when depreciation and disposals exceed capital additions.

Major capital asset additions during the year include:

- Acceptance of contributed city infrastructure valued at \$1,076,000. Streets included were portions of Stoney Creek Way, Southfork and Winding Branch in Stoney Creek Subdivision.
- Remediation of two softball fields at Berea Community Park for \$155,938.
- Purchase of an International Dump Truck with frame extension for snow plow for \$153,356 for public works.
- Construction of office space on the 3<sup>rd</sup> Floor of City Hall at a cost of \$72,701.
- Completion of the B Lake Spillway Improvement project with a total project cost of \$244,407 over a multi-year period, \$41,041 of which was expended in FY20.

- Installation of a back-up power generator system at the Waste Water Treatment Plant for \$218,273 over a multi-year period, \$29,207 of which was expended in FY20.
- Purchase of three police vehicles with attached equipment totaling \$141,059.
- Brick restoration and cornice replacement on the Berea Annex building at 304 Chestnut Street totaling \$90,536.

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

**Table 6**  
**Capital Assets**

	<b>Governmental</b>	<b>Business-type</b>	<b>2020</b>	<b>2019</b>
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>	<b>Total</b>
			<b>Primary</b>	<b>Primary</b>
			<b>Government</b>	<b>Government</b>
Land, Buildings & Improvements	\$ 25,853,980	\$ 3,129,677	\$ 28,983,657	\$ 28,757,530
Construction in Progress	426,878	3,785,924	4,212,802	3,354,448
Infrastructure/Utility Plant	19,063,144	65,338,970	84,402,114	82,263,450
Vehicles, Equipment & Other	10,194,655	3,132,415	13,327,070	13,194,162
Total Capital Assets	<u>55,538,657</u>	<u>75,386,986</u>	<u>130,925,643</u>	<u>127,569,590</u>
Less Accumulated Depreciation	<u>(17,734,241)</u>	<u>(36,768,833)</u>	<u>(54,503,074)</u>	<u>(50,640,928)</u>
Total Net Capital Assets	<u>\$ 37,804,416</u>	<u>\$ 38,618,153</u>	<u>\$ 76,422,569</u>	<u>\$ 76,928,662</u>



## DEBT

The City's long-term debt at June 30, 2020, totaled \$45,829,235, which was a \$1.2 million (3%) increase during the fiscal year. The City paid \$1.9 million in debt service principal payments on bond and leases. This included an extra \$74,000 payment toward the principal on the 2015 lease agreement made to avoid a large balloon payment at maturity in 2025. However, the City's proportionate share of the net pension liability increased by nearly \$3 million (15%). The City's proportionate share of the net OPEB liability decreased by \$86,000.

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

**Table 7  
Long Term Debt**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2020 Total Primary Government</b>	<b>2019 Total Primary Government</b>
Leases	\$ 765,311	\$ -	\$ 765,311	\$ 920,310
Bonds Payable	10,402,000	6,600,000	17,002,000	18,237,000
Loans Payable	-	4,355,870	4,355,870	4,861,554
Net Pension Liability	13,710,763	4,550,046	18,260,809	15,273,694
Net OPEB Liability	3,232,844	1,133,427	4,366,271	4,452,496
Compensated Absences	824,556	254,418	1,078,974	1,113,948
Total Debt Outstanding	\$ 28,935,474	\$ 16,893,761	\$ 45,829,235	\$ 44,859,002

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

Unfortunately, the 2021 Budget for the City of Berea cannot be based on a stable economic landscape. Due to the COVID-19 global pandemic. The pandemic presents unprecedented challenges for our community, and it is necessary the FY 2020 - 2021 operating budget be revised entirely to reflect the new economic realities.

Balancing measures to address this projected shortfall include freezing citywide vacancies, postponing cost of living increases for city staff, cutting travel expenses, the elimination of funding for capital projects (unless funded by other sources), and other expenditure reductions across all departments. The Department Heads and staff have worked very diligently to formulate a comprehensive budget for the operations of the City for the upcoming fiscal year. This budget is based upon realistic expectations of revenue and expenditures, rather than overestimating revenue and underestimating expenditures.

The budget for fiscal year 2021 begins on July 1, 2020 and represents a comprehensive spending plan for all city funds. The budget reflects all known and estimated increases in costs as well as the estimated projections for the various sources of revenues. Our occupational license fees, insurance premium tax, and property tax revenue are all dependent on economic conditions and as such these numbers will be subject to continued analysis and review.

With the COVID-19 impact we are projecting revenue at an estimated \$11,044,500, with a beginning fund balance for General Fund at \$10,500,000. We are estimating our occupational license fees on payroll to decrease by over \$1.85 million. This is a 28% decrease from Fiscal 19-20 actuals. We are also estimating a 33% decrease in occupational license fees on net profits, totaling nearly \$317,000. These estimates are based on the current status of employment in our city.

Our General Fund expenditures are estimated at \$12,930,144.

The City is fully insured for health and dental insurance purposes. Humana remained the City's Health insurance carrier, and insurance premiums were reduced by 9% compared to previous year's budget. The Cost for Delta Dental will remain the same. Additionally, for the first time the City will be offering employees Flexible Spending Account (FSA) for Medical and Dependent care expenses.

The fund balance reserve for fiscal year 2020 remained unchanged at \$2,700,000. The fund balance reserve is formula-based amount that provides for two months of day-to-day operation of the City in an emergency. The formula does not include the purchase of any capital equipment nor project monies other than day-to-day needed repairs. Currently our City Council has decided not to use any of this funding for the coming fiscal year.

The capital sinking fund has not been increased, and the City Council authorized that \$536,192 be expended from the Capital Sinking fund to purchase (1) fire truck. This will leave a remaining balance of \$2,914,000 for the future purchases of large capital equipment.

The Tourism Commission approved funding for a multi-use pavilion up to \$250,000, and \$60,000 for Shared Use Paths. Tourism will feel the effects of the COVID-19 in the coming fiscal year. We project revenue loss of \$250,000 in Restaurant Tax, and \$29,000 in Transient Room Tax. The total budgeted expenditures are \$757,618 less than last year.

Funding for municipal road aid comes from the state funds through the KY Transportation Cabinet. This fund is expecting revenue loss compared to prior years due to declines in the State gasoline tax receipts, which continues to give us less funding to resurface and maintain our city streets. This year we estimate receiving and spending \$225,000 in municipal road aid fund.

The Utilities Budget remains supportive of our daily activities and provides funds to complete scheduled projects. Some of the projects are based upon grant proceeds for the Central Park North Sewer Line, South Middletown Sewer Project, and Owsley Fork Dam Project.

The City's financial health is good, however that is only because of hard work, planning, and diligence. It was recommended that the Audit and Finance Committee evaluate a five-year financial direction for the City. This planning would involve how we can maintain the current level of service, which will continue to see inflationary pressures. We will also need to evaluate our increased personnel costs, along with our need to repair and maintain infrastructure and properties. I am confident that in conjunction with City Staff and engaged residents that we can gain financial stability for many years to come.

### **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, 2020**

	Primary Government			2019 Totals
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 1,865,073	\$ 3,612,038	\$ 5,477,111	\$ 3,396,473
Investments - certificates of deposit	10,133,555	7,320,293	17,453,848	17,110,254
Receivables, net	2,595,022	2,839,822	5,434,844	4,429,864
Other receivables	-	733,766	733,766	185,445
Interest receivable	7,521	3,493	11,014	35,802
Due from other funds	85,580	-	85,580	142,756
Other assets	135,000	-	135,000	9,854
Total current assets	<u>14,821,751</u>	<u>14,509,412</u>	<u>29,331,163</u>	<u>25,310,448</u>
<b>Noncurrent assets</b>				
Restricted cash and cash equivalents	-	7,015,567	7,015,567	4,841,989
Inventory	-	731,457	731,457	740,634
<b>Capital assets</b>				
Construction in progress	426,878	3,785,924	4,212,802	3,354,448
Land and easements	5,253,048	264,242	5,517,290	5,542,290
Land improvements, net	814,135	54,056	868,191	913,543
Buildings and improvements, net	13,488,471	1,651,411	15,139,882	15,542,665
Depreciable infrastructure, net	14,203,108	-	14,203,108	13,551,190
Plant and sewer system, net	-	10,902,679	10,902,679	11,299,356
Plant and electric system, net	-	8,549,585	8,549,585	8,959,463
Plant and water system, net	-	12,232,495	12,232,495	12,622,448
Vehicles and equipment	3,585,539	1,177,761	4,763,300	5,069,902
Software, net	33,237	-	33,237	73,357
Total noncurrent assets	<u>37,804,416</u>	<u>46,365,177</u>	<u>84,169,593</u>	<u>82,511,285</u>
Total Assets	<u>52,626,167</u>	<u>60,874,589</u>	<u>113,500,756</u>	<u>107,821,733</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension and OPEB	5,132,589	1,432,393	6,564,982	5,743,700
Defeasance on refunding	-	415,271	415,271	498,325
Total assets and deferred outflows of resources	<u>\$ 57,758,756</u>	<u>\$ 62,722,253</u>	<u>\$ 120,481,009</u>	<u>\$ 114,063,758</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 221,132	\$ 1,182,205	\$ 1,403,337	\$ 1,460,169
Accrued payroll	424,598	92,954	517,552	457,568
Accrued taxes and other liabilities	695	153,581	154,276	165,530
Accrued interest payable	163,390	3,733	167,123	167,678
Unearned revenue	620	-	620	101,518
Customer deposits	-	714,429	714,429	704,867
Compensated absences	1,731	-	1,731	5,569
Due to other funds	-	85,580	85,580	142,756
Current portion of long-term obligations	227,431	1,783,025	2,010,456	1,836,783
Total current liabilities	<u>1,039,597</u>	<u>4,015,507</u>	<u>5,055,104</u>	<u>5,042,438</u>
<b>Noncurrent liabilities</b>				
Compensated absences	824,556	254,418	1,078,974	1,113,948
Noncurrent portion of long-term obligations	10,939,880	9,259,198	20,199,078	22,285,704
Net pension liability	13,710,763	4,550,046	18,260,809	15,273,694
Net OPEB liability	3,232,844	1,133,427	4,366,271	4,452,496
Total noncurrent liabilities	<u>28,708,043</u>	<u>15,197,089</u>	<u>43,905,132</u>	<u>43,125,842</u>
Total liabilities	<u>29,747,640</u>	<u>19,212,596</u>	<u>48,960,236</u>	<u>48,168,280</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pension and OPEB	1,781,396	496,433	2,277,829	1,961,980
<b>Net Position</b>				
Net invested in capital assets	26,637,105	27,575,930	54,213,035	52,806,175
<b>Restricted for</b>				
Debt service	-	975,039	975,039	960,653
Depreciation	-	6,040,528	6,040,528	3,881,337
Other purposes	379,114	-	379,114	507,582
Unrestricted	(786,499)	8,421,727	7,635,228	5,777,751
Total net position	<u>26,229,720</u>	<u>43,013,224</u>	<u>69,242,944</u>	<u>63,933,498</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 57,758,756</u>	<u>\$ 62,722,253</u>	<u>\$ 120,481,009</u>	<u>\$ 114,063,758</u>

**City of Berea, Kentucky**  
**Statement of Activities**  
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense)			2019 Totals
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>								
<b>Governmental Activities</b>								
General government	\$ 2,837,928	\$ -	\$ 206,388	\$ -	\$ (2,631,540)	\$ -	\$ (2,631,540)	\$ (2,758,145)
Public works	3,251,127	-	270,687	1,146,000	(1,834,440)	-	(1,834,440)	(797,232)
Public safety - fire	2,700,929	-	507,140	-	(2,193,789)	-	(2,193,789)	(2,366,467)
Public safety - police	3,857,297	38,945	747,687	-	(3,070,665)	-	(3,070,665)	(3,182,273)
Codes enforcement	495,953	8,850	-	-	(487,103)	-	(487,103)	(478,062)
GIS/Surveying	231,236	-	-	-	(231,236)	-	(231,236)	(209,755)
Business development	114,169	-	-	-	(114,169)	-	(114,169)	(82,514)
Tourism	1,094,468	194,829	15,975	-	(883,664)	-	(883,664)	(1,151,696)
Information technology	222,898	-	-	-	(222,898)	-	(222,898)	(221,822)
Interest on long-term debt	348,380	-	-	-	(348,380)	-	(348,380)	(375,200)
Parks and recreation	884,353	50,996	-	-	(833,357)	-	(833,357)	(908,012)
Total governmental activities	16,038,738	293,620	1,747,877	1,146,000	(12,851,241)	-	(12,851,241)	(12,531,178)
<b>Business-Type Activities</b>								
Berea municipal utilities	14,174,046	18,694,219	-	1,233,742	-	5,753,915	5,753,915	2,198,822
Total Business-Type Activities	14,174,046	18,694,219	-	1,233,742	-	5,753,915	5,753,915	2,198,822
<b>Total</b>	<b>\$ 30,212,784</b>	<b>\$ 18,987,839</b>	<b>\$ 1,747,877</b>	<b>\$ 2,379,742</b>	<b>(12,851,241)</b>	<b>5,753,915</b>	<b>(7,097,326)</b>	<b>(10,332,356)</b>
<b>General revenues</b>								
Taxes:								
Property taxes, levied for general purposes					936,819	-	936,819	919,384
Transient room tax					141,448	-	141,448	186,461
Restaurant tax					1,068,591	-	1,068,591	1,111,433
Licenses fees:								
Franchise					1,107,478	-	1,107,478	1,165,510
Payroll					6,461,239	-	6,461,239	6,652,434
Insurance premiums					1,145,854	-	1,145,854	1,068,168
Occupational					822,486	-	822,486	1,042,167
ABC					20,999	-	20,999	30,647
Permits:								
Building					172,052	-	172,052	65,655
Electric					55,448	-	55,448	36,551
Other					1,475	-	1,475	1,700
Investment income					192,081	134,253	326,334	258,040
Miscellaneous					143,773	-	143,773	243,376
Total general revenues					12,269,743	134,253	12,403,996	12,781,526
Gain/(loss) on disposal of capital assets					(838)	3,614	2,776	(300,611)
<b>Change in net position</b>					(582,336)	5,891,782	5,309,446	2,148,559
Net position, beginning					26,812,056	37,121,442	63,933,498	61,784,939
<b>Net Position, ending</b>					<b>\$ 26,229,720</b>	<b>\$ 43,013,224</b>	<b>\$ 69,242,944</b>	<b>\$ 63,933,498</b>

**City of Berea, Kentucky**  
**Balance Sheet - Governmental Funds**  
**June 30, 2020**

	<b>General Fund</b>	<b>Tourism Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>2019 Totals</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 921,896	\$ 450,145	\$ 493,032	\$ 1,865,073	\$ 2,550,675
Investments	8,989,034	1,034,680	109,841	10,133,555	9,927,705
Receivables, net	2,382,891	190,939	21,192	2,595,022	1,667,263
Interest receivable	6,437	970	114	7,521	22,713
Other assets	135,000	-	-	135,000	9,854
Due from other funds	85,580	-	-	85,580	89,211
	<u>\$ 12,520,838</u>	<u>\$ 1,676,734</u>	<u>\$ 624,179</u>	<u>\$ 14,821,751</u>	<u>\$ 14,267,421</u>
<b>Total assets</b>					
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 174,411	\$ 24,721	\$ 22,000	\$ 221,132	\$ 349,295
Accrued payroll and related liabilities	416,513	8,085	-	424,598	377,202
Accrued taxes and other liabilities	695	-	-	695	1,947
Compensated absences	1,731	-	-	1,731	5,364
Unearned revenue	-	620	-	620	101,518
Due to other funds	-	-	-	-	53,545
Total liabilities	<u>593,350</u>	<u>33,426</u>	<u>22,000</u>	<u>648,776</u>	<u>888,871</u>
<b>Fund Balances</b>					
Nonspendable	135,000	-	-	135,000	9,854
Restricted	-	-	379,114	379,114	507,582
Committed	5,614,000	-	-	5,614,000	6,150,000
Assigned	1,890,644	1,643,308	223,065	3,757,017	6,459,801
Unassigned	4,287,844	-	-	4,287,844	251,313
Total fund balance	<u>11,927,488</u>	<u>1,643,308</u>	<u>602,179</u>	<u>14,172,975</u>	<u>13,378,550</u>
Total Liabilities and Fund Balances	<u>\$ 12,520,838</u>	<u>\$ 1,676,734</u>	<u>\$ 624,179</u>	<u>\$ 14,821,751</u>	<u>\$ 14,267,421</u>

**City of Berea, Kentucky**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**June 30, 2020**

Fund balances- total governmental funds \$ 14,172,975

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 \$17,734,239. 37,804,416

Interest accrued on general long term debt is not a current expenditure and is not reported in the funds (163,390)

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	5,132,589	
Deferred inflows related to pension and OPEB	<u>(1,781,396)</u>	3,351,193

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	(11,167,311)	
Compensated absences	(824,556)	
Net pension liability	(13,710,763)	
Net OPEB liability	<u>(3,232,844)</u>	<u>(28,935,474)</u>

Net Position of governmental activities \$ 26,229,720

**City of Berea, Kentucky**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2020**

	<b>General Fund</b>	<b>Tourism Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>	<b>2019 Totals</b>
<b>Revenues</b>					
Taxes	\$ 936,819	\$ 1,210,039	\$ -	\$ 2,146,858	\$ 2,217,279
Licenses and permits	9,787,031	-	-	9,787,031	10,062,831
Intergovernmental revenue	1,459,543	15,975	272,359	1,747,877	755,700
Charges for services	98,791	137,516	57,313	293,620	340,138
Fines and forfeits	46,491	1,159	-	47,650	66,443
Other revenues	234,761	50,203	3,240	288,204	332,124
<b>Total revenue</b>	<b>12,563,436</b>	<b>1,414,892</b>	<b>332,912</b>	<b>14,311,240</b>	<b>13,774,515</b>
<b>Expenditures</b>					
General administration	2,129,669	-	15	2,129,684	1,982,256
Public works	1,889,734	-	393,999	2,283,733	2,224,563
Public safety-fire	2,130,954	-	-	2,130,954	2,023,818
Public safety-police	3,093,283	-	7,095	3,100,378	2,881,655
Parks and recreation	605,298	-	-	605,298	775,121
Tourism	-	882,576	45,821	928,397	1,259,866
Codes enforcement	405,479	-	-	405,479	411,178
GIS/Surveying	190,729	-	-	190,729	170,776
Business development	107,748	-	-	107,748	62,928
Information technology	173,467	-	-	173,467	191,203
Debt service	325,063	178,553	-	503,616	433,319
Capital outlay	1,021,258	41,967	-	1,063,225	1,894,871
<b>Total expenditures</b>	<b>12,072,682</b>	<b>1,103,096</b>	<b>446,930</b>	<b>13,622,708</b>	<b>14,311,554</b>
Excess of revenues over (under) expenditures	490,754	311,796	(114,018)	688,532	(537,039)
<b>Other financing sources (uses):</b>					
Proceeds from sale of assets	105,893	-	-	105,893	44,212
Transfers (to) from other funds	267,706	(147,225)	(120,481)	-	-
<b>Total other financing uses</b>	<b>373,599</b>	<b>(147,225)</b>	<b>(120,481)</b>	<b>105,893</b>	<b>44,212</b>
<b>Net change in fund balance</b>	<b>864,353</b>	<b>164,571</b>	<b>(234,499)</b>	<b>794,425</b>	<b>(492,827)</b>
Fund balances, beginning	11,063,135	1,478,737	836,678	13,378,550	13,871,377
<b>Fund balances, ending</b>	<b>\$ 11,927,488</b>	<b>1,643,308</b>	<b>\$ 602,179</b>	<b>\$ 14,172,975</b>	<b>\$ 13,378,550</b>



**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, 2020**

Net change in fund balances - total governmental funds \$ 794,425

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	1,063,226	
Capital asset contributed	1,175,349	
Loss on disposal of assets	(838)	
Proceeds from disposal of assets	(105,893)	
Depreciation expense	<u>(1,859,349)</u>	272,495

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	154,999	
Changes in interest on long term debt	<u>237</u>	155,236

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	70,511	
Change in net OPEB liability	(76,055)	
Change in net pension liability	<u>(1,798,948)</u>	<u>(1,804,492)</u>

Change in Net Position of Governmental Activities \$ (582,336)

**City of Berea, Kentucky**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2020**

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current assets		
Cash and cash equivalents	\$ 3,612,038	\$ 845,798
Investments - certificates of deposit	7,320,293	7,182,549
Receivables, net	2,839,822	2,762,601
Grant receivables	727,348	180,877
Other receivables	6,418	4,568
Interest receivable	3,493	13,089
Due from other funds	-	53,545
<b>Total Current Assets</b>	<b>14,509,412</b>	<b>11,043,027</b>
Noncurrent assets		
Restricted cash and cash equivalents	7,015,567	4,841,989
Inventory	731,457	740,634
Capital assets		
Construction in progress	3,785,924	3,182,922
Land and easements	264,242	264,242
Land improvements	84,201	84,201
Buildings and improvements	2,781,234	2,731,235
Plant and electric equipment	15,196,184	15,088,713
Plant and water equipment	18,896,469	18,640,894
Plant and sewer equipment	31,246,317	30,702,637
Vehicles and equipment	3,132,416	3,042,472
Less accumulated depreciation	(36,768,834)	(34,340,577)
<b>Total Noncurrent Assets</b>	<b>46,365,177</b>	<b>44,979,362</b>
<b>Total assets</b>	<b>60,874,589</b>	<b>56,022,389</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pension and OPEB	1,432,393	1,337,608
Defeasance on refunding	415,271	498,325
<b>Total assets and deferred outflows of resources</b>	<b>\$ 62,722,253</b>	<b>\$ 57,858,322</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 1,182,205	\$ 1,110,874
Accrued payroll and related liabilities	92,954	80,366
Accrued taxes and other liabilities	153,581	163,583
Accrued interest payable	3,733	4,051
Customer deposits	714,429	704,867
Deferred revenue	-	-
Compensated absences - current	-	205
Bonds, notes, and loans payable	1,783,025	1,757,955
Due to other funds	85,580	89,211
<b>Total current liabilities</b>	<b>4,015,507</b>	<b>3,911,112</b>
Noncurrent liabilities		
Compensated absences	254,418	218,881
Bonds, notes, and loans payable	9,259,198	11,042,222
Net OPEB liability	1,133,427	1,155,112
Net pension liability	4,550,046	3,942,164
<b>Total noncurrent liabilities</b>	<b>15,197,089</b>	<b>16,358,379</b>
<b>Total liabilities</b>	<b>19,212,596</b>	<b>20,269,491</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pension and OPEB	496,433	467,389
<b>Net Position</b>		
Net invested in capital assets	27,575,930	26,596,562
Restricted for debt service	975,039	960,653
Restricted for depreciation reserve	6,040,528	3,881,337
Unrestricted	8,421,727	5,682,890
<b>Total Net Position</b>	<b>43,013,224</b>	<b>37,121,442</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 62,722,253</b>	<b>\$ 57,858,322</b>

**City of Berea, Kentucky**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2020**

	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>		
Electric service	\$ 11,980,756	\$ 12,719,339
Water service	3,278,199	3,145,899
Sewer service	2,889,631	2,705,257
Other revenues	545,633	418,225
Total Operating Revenues	18,694,219	18,988,720
<b>Operating expenses</b>		
Administration	1,494,616	1,480,277
Electric	7,074,375	10,115,040
Water	1,452,133	1,307,275
Sewer	1,370,260	1,387,313
Depreciation	2,467,610	2,371,225
Total operating expenses	13,858,994	16,661,130
Operating income	4,835,225	2,327,590
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment revenue	134,253	102,849
Interest expense	(249,268)	(279,655)
Amortization	(65,784)	(65,784)
Gain on disposal of capital assets	3,614	14,127
Total Nonoperating Revenues (Expenses)	(177,185)	(228,463)
Income before capital contributions	4,658,040	2,099,127
Capital contributions		
Electric, water and sewer connection fees	62,375	51,600
Grant revenues	1,171,367	165,071
<b>Change in Net Position</b>	5,891,782	2,315,798
Net Position - beginning	37,121,442	34,805,644
<b>Net Position, ending</b>	\$ 43,013,224	\$ 37,121,442

**City of Berea, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2020**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 18,078,239	\$ 19,330,551
Payments to suppliers	(8,403,505)	(12,293,249)
Payments to employee services and benefits	(2,299,082)	(2,416,314)
	<u>7,375,652</u>	<u>4,620,988</u>
<b>Net cash provided by operating activities</b>		
<b>Cash flows from capital and related financing activities</b>		
Capital contributions	1,233,742	216,671
Principal paid on capital debt	(1,757,954)	(1,710,665)
Purchases of capital assets and construction in progress	(1,673,462)	(1,511,398)
Proceeds from sale of capital assets	5,321	14,127
Interest paid on capital debt	(249,586)	(280,073)
	<u>(2,441,939)</u>	<u>(3,271,338)</u>
<b>Net cash used by capital and related financing activities</b>		
<b>Cash flows from investing activities</b>		
Investment activity, net	(137,744)	(89,103)
Interest and dividends	143,849	93,035
	<u>6,105</u>	<u>3,932</u>
<b>Net cash provided by investing activities</b>		
<b>Net increase in cash and cash equivalents</b>	4,939,818	1,353,582
Balances-beginning of the year	5,687,787	4,334,205
<b>Balances-end of the year</b>	<u>\$ 10,627,605</u>	<u>\$ 5,687,787</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 4,835,225	\$ 2,327,590
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,467,610	2,371,225
Net pension and OPEB liability	520,456	479,561
Change in assets and liabilities:		
Receivables, net	(625,542)	344,882
Inventory	9,177	(13,259)
Due to/from other funds	49,914	35,666
Accounts payable	71,331	(896,953)
Accrued vacation, sick and holiday	35,333	(3,046)
Accrued payroll and related taxes	12,588	(11,122)
Accrued taxes	(10,002)	(10,505)
Unearned revenue	-	(3,000)
Customer deposits	9,562	(51)
	<u>7,375,652</u>	<u>4,620,988</u>
<b>Net cash provided by operating activities</b>		
Supplemental disclosures of cash flow information:		
Noncash capital and related financing activities:		
Amortization expense	\$ 65,784	\$ 65,784
Cash Reconciliation:		
Cash and cash equivalents	\$ 3,612,038	\$ 845,798
Restricted cash	7,015,567	4,841,989
<b>Cash and cash equivalents - end of year</b>	<u>\$ 10,627,605</u>	<u>\$ 5,687,787</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2019.

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, the City reports deferred outflows of resources related to defeasance on a utility refunding bond.

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, 2020

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, 2019.

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, 2020

Note 1 - Summary of significant accounting policies (continued)

As of June 30, 2020, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	\$ 135,000	\$ -	\$ -	\$ 135,000
Restricted:	-	-	-	-
Law Enforcement	-	-	85,947	85,947
Road surface repairs	-	-	293,167	293,167
Committed:				
Capital additions	-	-	-	-
Capital sinking fund	2,914,000	-	-	2,914,000
Fund balance reserve	2,700,000	-	-	2,700,000
Assigned:				
Capital additions	1,545,592	-	-	1,545,592
Debt service	-	155,000	-	155,000
Transfer to other fund	-	310,000	-	310,000
Other purposes	345,052	1,178,308	223,065	1,746,425
Unassigned	4,287,844	-	-	4,287,844
Total fund balances	<u>\$ 11,927,488</u>	<u>\$ 1,643,308</u>	<u>\$ 602,179</u>	<u>\$ 14,172,975</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 16, 2020, 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, 2020, 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, 2020

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 \$30,502,951. At June 30, 2020, federal depository insurance covered \$1,000,000 of the City's deposits. The remainder is covered by \$29,502,951 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, 2020, consist entirely of certificates of deposit with maturities of one year or less.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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:

	<b>General Fund</b>	<b>Tourism Fund</b>	<b>Nonmajor Funds</b>	<b>Governmental Funds total</b>
Governmental Funds:				
Taxes	\$ 91,173	\$ 190,939	\$ -	\$ 282,112
Licenses, permits, billings	1,416,697	-	-	1,416,697
Charges for service	3,374	-	-	3,374
Intergovernmental	897,359	-	21,192	918,551
Other	35,288	-	-	35,288
Gross receivables	<u>2,443,891</u>	<u>190,939</u>	<u>21,192</u>	<u>2,656,022</u>
Less: allowance for uncollectible	(61,000)	-	-	(61,000)
Net receivables	<u>\$ 2,382,891</u>	<u>\$ 190,939</u>	<u>\$ 21,192</u>	<u>\$ 2,595,022</u>
Business-type Activities	<b>Total</b>			
Customer	\$ 2,959,822			
Less: allowance for uncollectible	(120,000)			
Net receivables	<u>\$ 2,839,822</u>			

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

Note 4 - Capital assets

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

	July 1, 2019	Additions	Deductions	June 30, 2020
<b>Governmental Activities:</b>				
Capital assets not depreciated:				
Land	\$ 5,278,048	\$ -	\$ (25,000)	\$ 5,253,048
Construction in progress	171,525	255,353	-	426,878
Totals	<u>5,449,573</u>	<u>255,353</u>	<u>(25,000)</u>	<u>5,679,926</u>
Capital assets being depreciated:				
Buildings and improvements	19,173,854	280,927	(79,800)	19,374,981
Land improvements	1,225,950	-	-	1,225,950
Software	317,396	22,252	(22,733)	316,915
Vehicles and equipment	9,834,293	448,105	(404,657)	9,877,741
Totals	<u>30,551,493</u>	<u>751,284</u>	<u>(507,190)</u>	<u>30,795,587</u>
Infrastructure assets	17,831,206	1,231,938	-	19,063,144
Total depreciable assets	<u>48,382,699</u>	<u>1,983,222</u>	<u>(507,190)</u>	<u>49,858,731</u>
Less accumulated depreciation:				
Buildings and improvements	5,352,458	542,872	(8,820)	5,886,510
Land improvements	370,607	41,208	-	411,815
Software	244,039	52,451	(12,812)	283,678
Vehicles and equipment	6,053,229	642,800	(403,827)	6,292,202
Infrastructure assets	4,280,018	580,018	-	4,860,036
Totals	<u>16,300,351</u>	<u>1,859,349</u>	<u>(425,459)</u>	<u>17,734,241</u>
Depreciable capital assets, net	<u>32,082,348</u>	<u>123,873</u>	<u>(81,731)</u>	<u>32,124,490</u>
Total capital assets, net	<u>\$ 37,531,921</u>	<u>\$ 379,226</u>	<u>\$ (106,731)</u>	<u>\$ 37,804,416</u>
<b>Business-type Activities:</b>				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	3,182,922	1,388,441	(785,439)	3,785,924
Totals	<u>3,447,164</u>	<u>1,388,441</u>	<u>(785,439)</u>	<u>4,050,166</u>
Capital assets being depreciated:				
Land improvements	84,201			84,201
Buildings and improvements	2,731,235	49,999	-	2,781,234
Electric system	15,088,713	107,471	-	15,196,184
Water system	18,640,894	255,575	-	18,896,469
Plant and sewer system	30,702,637	543,680	-	31,246,317
Vehicle and equipment	3,042,473	131,002	(41,058)	3,132,417
Totals	<u>70,290,153</u>	<u>1,087,727</u>	<u>(41,058)</u>	<u>71,336,822</u>
Less accumulated depreciation	<u>(34,340,578)</u>	<u>(2,467,610)</u>	<u>39,353</u>	<u>(36,768,835)</u>
Depreciable capital assets, net	<u>35,949,575</u>	<u>(1,379,883)</u>	<u>(1,705)</u>	<u>34,567,987</u>
Total capital assets, net	<u>\$ 39,396,739</u>	<u>\$ 8,558</u>	<u>\$ (787,144)</u>	<u>\$ 38,618,153</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

Note 4 Capital assets (continued)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 542,189
Police	155,523
Fire	189,826
Public works	693,606
Parks and recreation	176,918
Codes enforcement	10,497
GIS/Surveying	7,853
Tourism	82,937
Total depreciation expense	<u>\$1,859,349</u>

Note 5 - Construction in progress

The City is in progress on the following projects:

	<u>June 30, 2020</u>
Business-type Activities	
Water Main Upgrade - West	\$ 1,852
Raw Water - Owsley	2,228,153
Raw Water - Cowbell	10,883
Central Park North/Walnut Meadow	1,505,113
Berea Bypass Utility Relocation	23,230
Holly Hill Sewer Rehab	16,693
Total construction in progress	<u>\$ 3,785,924</u>
Governmental Activities	
Ellipse Street Shared Use Path	\$ 52,409
Scaffold Cane Shared Use Path	124,010
Brushy Fork	28,759
Rash Road Drainage	13,730
Cherry Road Drainage	129,161
Farmer's Market Pavilion	35,900
Ellipse Street Intersection	12,550
Tolle Building Renovation - Design	30,359
Total construction in progress	<u>\$ 426,878</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020, the City had a balance of \$1,606,802 on the loan. Interest payments began within six months from the first draw of funds at a rate of 1%, and full principal and interest payments commenced within one year of initiation of operation. The loan calls for a \$250,000 repairs and maintenance reserve.

On January 1, 2009, the City of Berea entered into a loan assistance agreement, not to exceed \$5,000,000, with Kentucky Infrastructure Authority for a federally assisted expansion to the existing Water Treatment Plant. As of June 30, 2020, the City had a balance of \$2,749,068 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, 2020, were \$7,745,000. As of June 30, 2020, the City had a balance of \$6,595,000 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, 2019	Additions	Deductions	June 30, 2020
Revenue bonds payable	\$ 7,835,000	\$ -	\$ (1,235,000)	\$ 6,600,000
Notes payable	4,861,554	-	(505,684)	4,355,870
Net OPEB liability	1,155,112	-	(21,685)	1,133,427
Net pension liability	3,942,164	607,882	-	4,550,046
Compensated absences	218,881	35,537	-	254,418
Total debt outstanding	<u>\$ 18,012,711</u>	<u>\$ 643,419</u>	<u>\$ (1,762,369)</u>	<u>\$ 16,893,761</u>
Less current portion of:				
Revenue bonds				1,255,000
Notes payable				510,754
Unamortized premium				17,271
Current portion				<u>1,783,025</u>
Add unamortized premium				86,353
Total long term obligation				<u>\$ 15,197,089</u>



City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020:

	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
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	1,921,535	63,194	5,133	1,989,862
2026-30	1,755,392	46,687	10,861	1,812,940
Total	<u>\$10,955,870</u>	<u>\$ 778,305</u>	<u>\$ 48,281</u>	<u>\$ 11,782,456</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, 2020, the depreciation fund had a balance of \$6,040,528.

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, 2020, the debt service fund had a balance of \$975,039.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020 was \$765,311.

*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>
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
2025	594,003	320,571	914,574
Thereafter	9,622,500	5,869,076	15,491,576
Total	<u>\$ 11,167,311</u>	<u>\$ 7,543,391</u>	<u>\$ 18,710,702</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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

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

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2020</u>
General Obligation bond payable	\$ 10,402,000	\$ -	\$ -	\$ 10,402,000
Leases payable - building	920,310	-	(154,999)	765,311
Net Pension liability	11,331,530	2,379,233	-	13,710,763
Net OPEB liability	3,297,384	-	(64,540)	3,232,844
Compensated absences	895,067	-	(70,511)	824,556
Total debt outstanding	<u>\$ 26,846,291</u>	<u>\$ 2,379,233</u>	<u>\$ (290,050)</u>	<u>\$ 28,935,474</u>
Less current portion of:				
Leases payable				\$ 80,931
General Obligation bond payable				146,500
Current portion				227,431
Total long - term obligation				<u>\$ 28,708,043</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, 2020 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, 2020 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:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 267,706	\$ -
Tourism Fund	-	147,225
US 25 North Fund	-	120,460
Total	<u>\$ 645,213</u>	<u>\$ 645,213</u>

The primary purpose of the interfund transfers for the Tourism Fund was to transfer funds for the purpose of capital outlay. The US 25 North Fund transfer resulted from closing out the project and returning seed funds to the General Fund.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020, 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, 2020, participating employers contributed 24.06% of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

The City contributed \$1,865,063 for the year ended June 30, 2020, or 100% of the required contribution. The contribution was allocated \$1,341,103 to the CERS pension fund and \$424,510 to the CERS insurance fund.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2020, the City reported a liability of \$18,260,809 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the City's proportion was .260 percent, which was an increase of .009 percent from its proportion at June 30, 2019 (.251 percent).

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

Note 10 - Retirement plan (continued)

For the year ended June 30, 2020, the City recognized pension expense of \$3,614,309. At June 30, 2020, 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	\$ 466,253	\$ 77,157
Changes of assumptions	1,848,201	-
Net difference between projected and actual earnings on Plan investments	350,536	644,908
Changes in proposition and differences between City contributions and proportionate share of contributions	618,815	-
City contributions subsequent to the measurement date	1,341,103	-
Total	\$ 4,624,908	\$ 722,065

The \$1,341,103 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, 2021. 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,

2021	\$ 1,627,438
2022	666,874
2023	246,546
2024	20,883

*Actuarial Methods and Assumptions*

For financial reporting, the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2019 were based on an actuarial valuation date of June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, using generally accepted actuarial principles.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members was a Pub-2010 General Mortality table, for the Non-Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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 24 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, 2020

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	4.30%	18.75%
Non-U.S. Equity	4.80%	18.75%
Core Bonds	1.35%	13.50%
Specialty Credit/ High Yield	2.60%	15.00%
Real Estate	4.85%	5.00%
Opportunistic Return	2.97%	3.00%
Real Return	4.10%	15.00%
Private Equity	6.65%	10.00%
Cash	0.20%	1.00%
		100.00%

*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%	\$ 22,839,091
Current discount rate	6.25%	\$ 18,260,809
1% increase	7.25%	\$ 14,444,853

*Payable to the Pension Plan* – At June 30, 2020, the City reported a payable of \$158,797 for the outstanding amount of contributions to the pension and OPEB plans required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.



City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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 \$19,000 and an additional \$6,000 if 50 or older for calendar year 2019. During the fiscal year employees contributed \$131,452 to the 457(b) plan and \$37,040 to the 401(k) plan.

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

At June 30, 2020, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Outflows of Resources	<u>\$ 1,940,074</u>
Deferred Inflows of Resources	<u>\$ 1,555,765</u>
Net OPEB Liability:	<u>\$ 4,366,271</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, 2020 was 4.76% of covered payroll. Contributions to the Insurance Fund from the City were \$424,510 for the year ended June 30, 2020. 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, 2020

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

*Net OPEB Liability*

For financial reporting the actuarial valuation as of June 30, 2019, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2019, were based on an actuarial valuation date of June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019, 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, 2019:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rate	Initial trend starting at 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Pre – 65	
Post – 65	Initial trend starting at 5.10% and gradually decreasing to an ultimate Trend rate of 4.05% over a period of 11 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 5.68% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24 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 3.13%, as reported in Fidelity Index's "20 – Year Municipal GO AA Index" as of June 30, 2019. 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, 2020

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	4.30%	18.75%
Non-U.S. Equity	4.80%	18.75%
Core Bonds	1.35%	13.00%
Specialty Credit/High Yield	2.60%	15.00%
Real Estate	4.85%	5.00%
Opportunistic Return	2.97%	3.00%
Real Return	4.10%	15.00%
Private Equity	6.65%	10.00%
Cash	0.20%	1.00%
		<u>100.00%</u>

*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 (4.68%) or one percentage point higher (6.68%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.68%	\$ 5,849,007
Current discount rate	5.68%	\$ 4,366,271
1% increase	6.68%	\$ 3,144,595

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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 or one percentage point higher than current healthcare cost trend rates follows:

Healthcare Cost Trend Rate	City’s proportionate share of net OPEB liability
1% decrease	\$ 3,247,218
Current healthcare rate	\$ 4,366,271
1% increase	\$ 5,723,255

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

At June 30, 2020, the City reported a liability of \$4,366,271 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019 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 2019. This method to be reflective of the employers’ long-term contribution effort. At June 30, 2019, the City’s proportion was 0.259595%

For the year ended June 30, 2020, the City recognized OPEB expense of \$517,127. At June 30, 2020, 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	\$ 194,784	\$ 7,029
Implicit subsidy	93,751	-
Differences between expected and actual results	-	1,317,405
Changes of assumptions	1,292,020	8,640
Net difference between projected and actual earnings on Plan investments	28,760	222,691
City contributions subsequent to the measurement date	330,759	-
Total	\$ 1,940,074	\$ 1,555,765

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2020

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

The \$330,759 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, 2021. 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,	
2021	\$ 5,750
2022	5,750
2023	67,409
2024	(50,797)
2025	(59,053)
Thereafter	(9,258)

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 2020 were levied in November 2019 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, 2020

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 2020.

Note 16 – Recently Issued Accounting Standards

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.

Note 10 – Subsequent Events

In early 2020, the global coronavirus outbreak hit the United States of America. The City overall could be negatively impacted by the coronavirus outbreak, but the significance and the duration of the impact for which it may have cannot be determined at this time.

The City has evaluated subsequent events through October 16, 2020, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL 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, 2020**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Municipal taxation</b>				
General property taxes	\$ 680,000	\$ 680,000	\$ 759,127	\$ 79,127
State assessment property taxes	13,500	13,500	15,685	2,185
In lieu of property tax	19,300	9,300	19,300	10,000
Delinquent property taxes	10,000	10,000	7,271	(2,729)
Bank deposit taxes	67,680	67,680	66,248	(1,432)
Motor vehicle taxes	50,000	50,000	69,188	19,188
	<u>840,480</u>	<u>830,480</u>	<u>936,819</u>	<u>106,339</u>
<b>Licenses, permits, billings</b>				
Occupational license fees				
Insurance	800,000	800,000	1,145,854	345,854
Employee withholding	6,000,000	6,000,000	6,461,239	461,239
Net profits	850,000	850,000	746,549	(103,451)
Individual	25,000	25,000	65,967	40,967
Business	9,000	9,000	9,970	970
ABC	15,000	15,000	20,999	5,999
Utility franchise fees	1,058,000	1,058,000	1,107,478	49,478
Building permits	65,000	108,000	172,052	64,052
Electric permits	35,000	35,000	55,448	20,448
Street cut permits	1,000	1,000	1,475	475
	<u>8,858,000</u>	<u>8,901,000</u>	<u>9,787,031</u>	<u>886,031</u>
<b>Charges for service</b>				
Court costs & fees	12,000	12,000	16,433	4,433
Accident reports	2,000	2,000	3,129	1,129
Codes - plat review fee	4,500	4,500	8,850	4,350
Police special services	15,000	15,000	19,383	4,383
Demolition cleanup	100	100	-	(100)
Parks concessions	14,000	14,000	355	(13,645)
Pool concessions	22,000	22,000	15,557	(6,443)
Swimming pool fees	60,000	60,000	34,449	(25,551)
Softball fees	200	200	-	(200)
Miscellaneous	1,000	1,000	635	(365)
	<u>130,800</u>	<u>130,800</u>	<u>98,791</u>	<u>(32,009)</u>
<b>Fines and forfeits</b>				
Fingerprint charges	1,000	1,000	1,035	35
Court restitution	100	100	-	(100)
Codes violations	1,600	1,600	9,103	7,503
Penalties and interest	21,000	21,000	33,618	12,618
Parking fines	4,000	4,000	2,735	(1,265)
	<u>27,700</u>	<u>27,700</u>	<u>46,491</u>	<u>18,791</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, 2020**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Intergovernmental revenues</b>				
County school-police contract	\$ 120,000	\$ 120,000	\$ 139,180	\$ 19,180
Madison county grants	38,000	38,000	38,000	-
Other grants	362,000	698,250	985,362	287,112
Volunteer fire state aid	10,500	10,500	10,500	-
Police incentive pay	140,000	140,000	161,760	21,760
Fire incentive pay	101,000	101,000	124,741	23,741
	<u>771,500</u>	<u>1,107,750</u>	<u>1,459,543</u>	<u>351,793</u>
<b>Other revenue</b>				
Rental income	77,275	53,200	45,390	(7,810)
Interest income	51,100	51,100	167,654	116,554
Insurance proceeds	-	-	6,069	6,069
Miscellaneous	12,000	12,000	15,648	3,648
	<u>140,375</u>	<u>116,300</u>	<u>234,761</u>	<u>118,461</u>
<b>Total revenue</b>	<u>10,768,855</u>	<u>11,114,030</u>	<u>12,563,436</u>	<u>1,449,406</u>
<b>Expenses</b>				
<b>Administration</b>				
General government				
Personnel	15,318	7,318	7,552	(234)
Utilities	68,600	68,600	61,137	7,463
Materials and supplies	13,500	13,500	20,041	(6,541)
Services and support	525,100	572,100	533,554	38,546
Other expenditures	5,000	5,000	472	4,528
Administration				-
Personnel	463,037	447,400	392,881	54,519
Materials and supplies	12,500	14,500	12,391	2,109
Services and support	142,500	150,500	138,498	12,002
Other expenditures	9,300	12,000	8,759	3,241
City council				-
Personnel	56,900	56,900	55,411	1,489
Services and support	60,600	60,600	45,447	15,153
Other expenditures	414,300	439,800	378,280	61,520
Finance office				-
Personnel	641,000	369,250	367,303	1,947
Materials and supplies	28,500	9,500	6,612	2,888
Services and support	258,700	119,450	96,961	22,489
Other expenditures	11,500	6,500	4,370	2,130
<b>Total Administration</b>	<u>2,726,355</u>	<u>2,352,918</u>	<u>2,129,669</u>	<u>223,249</u>
<b>Police</b>				
Personnel	2,949,000	2,969,500	2,791,211	178,289
Utilities	20,500	20,500	23,220	(2,720)
Materials and supplies	175,000	182,000	173,655	8,345
Services and support	87,000	87,000	56,428	30,572
Other expenditures	44,000	49,000	48,769	231
<b>Total police department</b>	<u>\$ 3,275,500</u>	<u>\$ 3,308,000</u>	<u>\$ 3,093,283</u>	<u>\$ 214,717</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, 2020**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Fire</b>				
Personnel	\$ 2,037,000	\$ 2,037,000	\$ 1,917,900	\$ 119,100
Utilities	11,900	11,900	8,981	2,919
Materials and supplies	233,500	233,500	122,593	110,907
Services and support	88,900	88,900	53,868	35,032
Other expenditures	37,500	37,500	27,612	9,888
Total fire department	<u>2,408,800</u>	<u>2,408,800</u>	<u>2,130,954</u>	<u>277,846</u>
<b>Public works</b>				
Personnel	1,516,785	1,516,785	1,380,058	136,727
Utilities	148,000	148,000	125,617	22,383
Materials and supplies	331,850	332,850	161,473	171,377
Services and support	417,250	417,250	220,990	196,260
Other expenditures	11,500	11,500	1,596	9,904
Total public works	<u>2,425,385</u>	<u>2,426,385</u>	<u>1,889,734</u>	<u>536,651</u>
<b>Codes enforcement</b>				
Personnel	375,148	375,148	346,414	28,734
Materials and supplies	21,500	20,500	10,866	9,634
Services and support	65,500	63,500	42,286	21,214
Other expenditures	12,500	11,000	5,913	5,087
Total codes enforcement	<u>474,648</u>	<u>470,148</u>	<u>405,479</u>	<u>64,669</u>
<b>Parks and recreation</b>				
Parks and recreation				
Personnel	360,041	371,000	320,709	50,291
Utilities	94,090	94,090	75,800	18,290
Materials and supplies	65,200	68,000	34,095	33,905
Services and support	152,800	107,800	45,126	62,674
Other expenditures	33,800	38,500	25,387	13,113
Pool				
Personnel	82,891	82,891	45,249	37,642
Utilities	20,400	20,400	11,134	9,266
Materials and supplies	50,650	50,650	16,551	34,099
Services and support	34,000	34,000	10,349	23,651
Other expenditures	9,000	9,000	2,467	6,533
Intergenerational center				
Utilities	18,700	18,700	14,277	4,423
Services and support	10,000	10,000	4,154	5,846
Total parks and recreation	<u>\$ 931,572</u>	<u>\$ 905,031</u>	<u>\$ 605,298</u>	<u>\$ 299,733</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, 2020**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>GIS/Surveying</b>				
Personnel	\$ 174,111	\$ 167,547	\$ 152,279	\$ 15,268
Materials and supplies	16,300	12,300	2,750	9,550
Services and support	22,550	34,500	27,135	7,365
Other expenditures	18,300	17,700	8,565	9,135
Total GIS/surveying	<u>231,261</u>	<u>232,047</u>	<u>190,729</u>	<u>41,318</u>
<b>Business development</b>				
Personnel	190,055	112,200	56,509	55,691
Materials and supplies	6,050	6,050	863	5,187
Services and support	15,100	49,100	39,301	9,799
Other expenditures	51,800	51,800	11,075	40,725
Total business development	<u>263,005</u>	<u>219,150</u>	<u>107,748</u>	<u>111,402</u>
<b>Information technology</b>				
Personnel	82,699	82,699	83,155	(456)
Utilities	88,000	88,000	75,450	12,550
Materials and supplies	13,500	13,500	5,589	7,911
Services and support	28,550	28,550	8,616	19,934
Other expenditures	6,000	6,000	657	5,343
Total information technology	<u>218,749</u>	<u>218,749</u>	<u>173,467</u>	<u>45,282</u>
<b>Capital outlay</b>	<u>2,959,850</u>	<u>3,404,542</u>	<u>1,021,258</u>	<u>2,383,284</u>
<b>Debt service</b>	<u>325,062</u>	<u>325,062</u>	<u>325,063</u>	<u>(1)</u>
<b>Total expenditures</b>	<u>16,240,187</u>	<u>16,270,832</u>	<u>12,072,682</u>	<u>4,198,150</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of assets	3,000	3,000	105,893	102,893
Transfers in (out)	663,445	966,481	267,706	(698,775)
<b>Total other financing sources (uses)</b>	<u>666,445</u>	<u>969,481</u>	<u>373,599</u>	<u>(595,882)</u>
<b>Net change in fund balance</b>	<u>\$ (4,804,887)</u>	<u>\$ (4,187,321)</u>	<u>\$ 864,353</u>	<u>\$ (3,344,626)</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, 2020**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Municipal taxation</b>				
Transient room tax	\$ 164,000	\$ 164,000	\$ 141,448	\$ (22,552)
Restaurant tax	950,000	950,000	1,068,591	118,591
<b>Intergovernmental</b>				
Grant revenues	15,000	15,000	15,975	975
<b>Charges for service</b>				
Workshop fees	150,000	150,000	137,516	(12,484)
<b>Other revenue</b>				
Miscellaneous	43,500	43,500	51,362	7,862
<b>Total revenue</b>	<u>1,322,500</u>	<u>1,322,500</u>	<u>1,414,892</u>	<u>92,392</u>
<b>Tourism</b>				
Personnel	438,755	438,755	320,760	117,995
Utilities	55,400	55,400	31,715	23,685
Materials and supplies	38,200	38,200	9,219	28,981
Services and support	387,700	387,700	298,626	89,074
Other expenditures	351,380	351,380	222,256	129,124
<b>Capital outlay</b>	230,000	230,000	41,967	188,033
<b>Debt service</b>	180,783	180,783	178,553	2,230
<b>Total expenditures</b>	<u>1,682,218</u>	<u>1,682,218</u>	<u>1,103,096</u>	<u>579,122</u>
<b>Other financing sources (uses)</b>				
Transfers in (out)	(95,000)	(495,000)	(147,225)	347,775
<b>Total other financing sources (uses)</b>	<u>(95,000)</u>	<u>(495,000)</u>	<u>(147,225)</u>	<u>347,775</u>
<b>Net change in fund balance</b>	<u>\$ (454,718)</u>	<u>\$ (854,718)</u>	<u>\$ 164,571</u>	<u>\$ 1,019,289</u>

**City of Berea, Kentucky**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System**  
**Last Seven 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>	<u>June 30, 2020</u>
City's proportion of the net pension liability	0.223%	0.223%	0.226%	0.220%	0.243%	0.251%	0.260%
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	\$ 18,260,809
City's covered-employee payroll	\$ 5,223,676	\$ 5,394,952	\$ 5,636,670	\$ 6,092,638	\$ 6,370,339	\$ 6,706,498	\$ 6,948,720
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%	262.79%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.50%	53.54%	50.45%

**City of Berea, Kentucky**  
**Schedule of the City's Pension Contributions**  
**County Employees' Retirement System**  
**Last Seven 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>	<u>June 30, 2020</u>
Contractually required contribution	\$ 717,733	\$ 687,771	\$ 700,074	\$ 849,923	\$ 922,430	\$ 1,087,794	\$ 1,341,103
Contributions in relation to the contractually required contribution	<u>717,733</u>	<u>687,771</u>	<u>700,074</u>	<u>849,923</u>	<u>922,430</u>	<u>1,087,794</u>	<u>1,341,103</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,748,720
Contributions as a percentage of covered employee	13.74%	12.75%	12.42%	13.95%	14.48%	16.22%	19.87%

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

	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2019</u>
Contractually required contribution	\$ 299,408	\$ 352,761	\$ 330,759
Contributions in relation to the contractually required contribution	<u>299,408</u>	<u>352,761</u>	<u>330,759</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 6,370,339	\$ 6,706,498	\$ 6,948,720
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%

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

<b>Change in the Net OPEB Liability</b>	<u><b>June 30, 2018</b></u>	<u><b>June 30, 2019</b></u>	<u><b>June 30, 2020</b></u>
<b>Total OPEB liability</b>			
Service Cost	\$ 207	\$ 307	\$ 309
Interest	584	607	623
Benefit Changes	-	11	-
Difference between actual and expected experience	(16)	(603)	(1,049)
Assumption Changes	1,262	(12)	698
Benefit Payments	<u>(340)</u>	<u>(392)</u>	<u>(420)</u>
<b>Net Change on Total OPEB Liability</b>	1,697	(82)	161
Total OPEB Liability - Beginning	<b>8,546</b>	10,589	10,872
<b>Total OPEB Liability - Ending</b>	<u><b>\$ 10,243</b></u>	<u><b>\$ 10,507</b></u>	<u><b>\$ 11,033</b></u>
<b>Fiduciary Net Position</b>			
Contributions - Employer	\$ 323	\$ 366	\$ 436
Contributions - Member	22	27	31
Benefit Payments	(340)	(392)	(420)
Net Investment Income	642	507	357
Administrative Expense	(2)	(2)	(2)
Other	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fiduciary Net Position</b>	645	506	402
Fiduciary Net Position - Beginning	<b>4,722</b>	5,548	6,265
<b>Fiduciary Net Position - Ending</b>	<u><b>\$ 5,367</b></u>	<u><b>\$ 6,054</b></u>	<u><b>\$ 6,667</b></u>
<b>Net OPEB Liability - Ending</b>	<b>4,876</b>	<b>4,453</b>	<b>4,366</b>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.4%	57.6%	60.4%
Covered Payroll	6,370	\$ 6,706	\$ 6,949
Net OPEB Liability as a Percentage of Covered Payroll	76.5%	66.4%	62.8%



## **SUPPLEMENTAL INFORMATION**

**City of Berea, Kentucky**  
**Proprietary Fund**  
**Budget Information**  
**For the Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Berea Municipal Utilities</b>				
Administration				
Personnel	\$ 647,536	\$ 919,286	\$ 966,844	\$ (47,558)
Utilities	77,000	77,000	61,001	15,999
Materials and supplies	35,300	45,300	25,862	19,438
Services and support	306,040	483,290	404,716	78,574
Other expenses	23,500	33,500	36,193	(2,693)
	<u>1,089,376</u>	<u>1,558,376</u>	<u>1,494,616</u>	<u>63,760</u>
Electric				
Personnel	649,789	649,789	682,439	(32,650)
Utilities	4,675	4,675	3,916	759
Materials and supplies	50,800	50,800	42,874	7,926
Services and support	8,054,236	8,141,736	6,259,586	1,882,150
Other expenditures	152,000	152,000	85,560	66,440
	<u>8,911,500</u>	<u>8,999,000</u>	<u>7,074,375</u>	<u>1,924,625</u>
Water				
Personnel	590,283	590,283	703,048	(112,765)
Utilities	250,775	300,775	253,600	47,175
Materials and supplies	153,300	153,300	130,906	22,394
Services and support	397,016	422,016	336,596	85,420
Other expenditures	35,950	39,450	27,983	11,467
	<u>1,427,324</u>	<u>1,505,824</u>	<u>1,452,133</u>	<u>53,691</u>
Sewer				
Personnel	653,156	653,156	727,134	(73,978)
Utilities	215,000	215,000	183,258	31,742
Materials and supplies	79,300	79,300	77,271	2,029
Services and support	332,500	386,500	354,098	32,402
Other expenditures	121,000	123,500	28,499	95,001
	<u>1,400,956</u>	<u>1,457,456</u>	<u>1,370,260</u>	<u>87,196</u>
<b>Total expenses</b>	<u><u>\$ 12,829,156</u></u>	<u><u>\$ 13,520,656</u></u>	<u><u>\$ 11,391,384</u></u>	<u><u>\$ 2,129,272</u></u>

**City of Berea, Kentucky  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2020**

	<b>Municipal Road Aid Fund</b>	<b>Industrial Development Fund</b>	<b>Police Restricted Fund</b>	<b>Berea Craft Festival Fund</b>	<b>US 25 North Fund</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 271,975	\$ 55,012	\$ 85,947	\$ 80,098	\$ -	\$ 493,032
Investments	-	109,841	-	-	-	109,841
Accounts receivable	21,192	-	-	-	-	21,192
Interest receivable	-	114	-	-	-	114
<b>Total Assets</b>	<b>\$ 293,167</b>	<b>\$ 164,967</b>	<b>\$ 85,947</b>	<b>\$ 80,098</b>	<b>\$ -</b>	<b>\$ 624,179</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Accounts payable	\$ -	20,000	\$ -	\$ 2,000	\$ -	\$ 22,000
Other current liabilities	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>22,000</b>
Fund Balance, restricted	293,167	-	85,947	-	-	379,114
Fund Balance, assigned	-	144,967	-	78,098	-	223,065
<b>Total Fund Balance</b>	<b>293,167</b>	<b>144,967</b>	<b>85,947</b>	<b>78,098</b>	<b>-</b>	<b>602,179</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 293,167</b>	<b>\$ 164,967</b>	<b>\$ 85,947</b>	<b>\$ 80,098</b>	<b>\$ -</b>	<b>\$ 624,179</b>

**City of Berea, Kentucky**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	<b>Municipal Road Aid Fund</b>	<b>Industrial Development Fund</b>	<b>Police Restricted Fund</b>	<b>Berea Craft Festival Fund</b>	<b>US 25 North Fund</b>	<b>Total</b>
<b>Revenues</b>						
Intergovernmental revenues	\$ 270,687	\$ -	\$ 1,672	\$ -	\$ -	\$ 272,359
Charges for services	-	-	-	57,313	-	57,313
Other revenues	206	2,892	61	60	21	3,240
Total Revenues	<u>270,893</u>	<u>2,892</u>	<u>1,733</u>	<u>57,373</u>	<u>21</u>	<u>332,912</u>
<b>Expenditures</b>						
General administrative	-	15	-	-	-	15
Police department	-	-	7,095	-	-	7,095
Public works	393,999	-	-	-	-	393,999
Tourism	-	-	-	45,821	-	45,821
Total expenditures	<u>393,999</u>	<u>15</u>	<u>7,095</u>	<u>45,821</u>	<u>-</u>	<u>446,930</u>
Excess revenues over (under) expenditures before other sources (uses)	<u>(123,106)</u>	<u>2,877</u>	<u>(5,362)</u>	<u>11,552</u>	<u>21</u>	<u>(114,018)</u>
<b>Other financing sources</b>						
Transfers from (to) other funds	-	-	-	-	(120,481)	(120,481)
Excess revenues and other sources over (under) expenditures	<u>(123,106)</u>	<u>2,877</u>	<u>(5,362)</u>	<u>11,552</u>	<u>(120,460)</u>	<u>(234,499)</u>
Fund balances July 1, 2019	<u>416,273</u>	<u>142,090</u>	<u>91,309</u>	<u>66,546</u>	<u>120,460</u>	<u>836,678</u>
<b>Fund balances June 30, 2020</b>	<u><u>\$ 293,167</u></u>	<u><u>\$ 144,967</u></u>	<u><u>\$ 85,947</u></u>	<u><u>\$ 78,098</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 602,179</u></u>

**City of Berea, Kentucky**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2020**

Federal Grantor Program Title	CFDA	Pass Through Contract Number	Federal Expenditures
<b>Executive Office of the President</b>			
High Intensity Drug Trafficking Areas Program	95.001	n/a	\$ 16,563
<b>Department of Transportation</b>			
State and Community Highway Safety (see note 4)	20.600	PT-2018-HY-3 1800004490	4,188
Federal-aid Highway Program (see note 4)	20.205	PO2-625-1500002643	120,168
Total Department of Transportation			124,356
<b>United States Department of Justice</b>			
Bulletproof Vest Partnership Program	16.607	n/a	3,537
VOCA Victim Assistance Formula Grant (see note 5)	16.575	VOCA-2019-Berea PD-00029	29,154
Total Department of Justice			32,691
<b>United States Department of Agriculture</b>			
Natural Resources Conservation Service	10.916	n/a	561,725
<b>United States Department of Housing &amp; Urban Development</b>			
Community Development Block Grant/State's Program (see note 6)	14.228	none	609,642
<b>United States Department of the Treasury</b>			
Coronavirus Relief Funds (see note 6)	21.019	none	778,974
<b>Total expenditures of federal awards</b>			\$ 2,123,951

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

Note 5: Pass Through Grantor - KY Justice & Public Safety Cabinet

Note 6: Pass Through Grantor - KY Dept of Local Government

**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, 2020, 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 16, 2020.

**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 16, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Mayor and City Council  
City of Berea, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Berea, Kentucky's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the City of Berea, Kentucky's major federal programs for the year ended June 30, 2020. The City of Berea, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Berea, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Berea, Kentucky's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, the City of Berea, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

**Report on Internal Control over Compliance**

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



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

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

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

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC  
Richmond, Kentucky  
October 16, 2020

City of Berea, Kentucky  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

**A. Summary of Audit Results**

Financial Statements:

1. The auditors' report expresses an unmodified opinion on the financial statements of the City of Berea, Kentucky.
2. No deficiencies in internal controls over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Berea, Kentucky, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Federal Awards:

4. No deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditors' report on compliance for the major federal awards programs for the City of Berea, Kentucky expresses an unmodified opinion on all major federal programs.
6. No audit findings were required to be reported in accordance with 2 CFR 2005.16(a).
7. The programs tested as major programs included:

	<u>CFDA #</u>
Coronavirus Relief Funds	21.019
Natural Resources Conservation Services	10.916
8. The threshold for distinguishing Types A and B Programs was \$750,000.
9. The City of Berea, Kentucky did not qualify to be a low risk auditee.

**B. Financial Statement Findings**

No matters were reported.

**C. Major Federal Award Findings and Questioned Costs**

No matters were reported.

**D. Schedule of Prior Year Audit Findings**

No matters were reported