



# **City of Berea, Kentucky**

Independent Auditors' Report

And Financial Statements

For the Year Ended

June 30, 2021

City of Berea, Kentucky  
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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### **Opinions**

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 (the City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2021, 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.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Berea, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Emphasis of Matter**

As discussed in Note 17 to the financial statements, the City has implemented Governmental Accounting Standard Board (GASB) No. 87, *Leases*, during the year ended June 30, 2021. The effect of applying GASB No. 87 is presented as a restatement of the FY 2020 balances and of the beginning net position as of July 1, 2019. Our opinion is not modified with respect to that matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Berea's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City of Berea's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Berea's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 4-17, 58-66 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary 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 67-69 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 70 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 15, 2021 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 2020 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 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 15, 2021

**City of Berea, Kentucky  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2021**

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, 2021. Please read the following in conjunction with the auditors' report on page 1-3 and the City's financial statements, which begin to appear on page 18.

**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.

Due to changes in accounting standards related to the treatment of leases, the City's net position at July 1, 2020 was adjusted by \$39,852. This adjustment was necessary so that the balances presented in the financial statements for fiscal year 2020 would also reflect the changes from implementing the new lease standard. The full impact to the City's financial statements related to the new lease standard is disclosed on the footnotes to the financial statements. As of June 30, 2021, the City is now reporting \$136,946 in lease receivables, \$542,392 in leased assets and \$463,676 of lease liabilities.

Overall, the assets and deferred outflows of the City of Berea exceeded liabilities by \$73.8 million. By far the largest portion of the City's net position (76%) reflects its investment of \$55.7 million in capital assets less any 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, \$9.8 million (13%), represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net position, \$8.3 million (11%), may be used to meet the City's on-going obligations to the public and creditors.



**Table 1  
Net Position**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2021 Total Primary Government</b>	<b>2020 Total Primary Government</b>
Current Assets	\$ 18,995,477	\$ 14,252,313	\$ 33,247,790	\$ 29,253,750
Capital Assets	37,149,630	38,708,031	75,857,661	76,422,569
Other Noncurrent Assets	656,603	10,088,280	10,744,883	7,926,513
Total Assets	<u>56,801,710</u>	<u>63,048,624</u>	<u>119,850,334</u>	<u>113,602,832</u>
Deferred Outflows of Resources	<u>5,817,805</u>	<u>1,970,403</u>	<u>7,788,208</u>	<u>6,980,253</u>
Total Assets and Deferred Outflow of Resources	<u>62,619,515</u>	<u>65,019,027</u>	<u>127,638,542</u>	<u>120,583,085</u>
Current Liabilities	1,556,873	4,115,005	5,671,878	4,980,700
Long-term Liabilities	32,121,336	14,372,750	46,494,086	43,930,179
Total Liabilities	<u>33,678,209</u>	<u>18,487,755</u>	<u>52,165,964</u>	<u>48,910,879</u>
Deferred Inflows of Resources	<u>1,341,916</u>	<u>349,049</u>	<u>1,690,965</u>	<u>2,388,095</u>
Net Position:				
Invested in Capital Assets Net of Related Debt	26,283,819	29,448,832	55,732,651	54,213,035
Restricted	399,096	9,398,117	9,797,213	7,394,681
Unrestricted	916,475	7,335,274	8,251,749	7,676,395
Total Net Position	<u>27,599,390</u>	<u>46,182,223</u>	<u>73,781,613</u>	<u>69,284,111</u>
Total Liabilities and Net Position	<u>\$ 62,619,515</u>	<u>\$ 65,019,027</u>	<u>\$ 127,638,542</u>	<u>\$ 120,583,085</u>

The City-wide net position increased by 7 percent (\$4.5 million) from the prior fiscal year, which is a combination of a \$1.3 million increase in governmental activities net position and a \$3.2 million increase in business-type activities net position.

**Governmental activities.** Governmental activities increased the City's net position by \$1.3 million, thereby accounting for 29 percent of the total improvement in net position. *Key elements of this increase are as follows:*

- There was an increase of \$4.3 million (29%) in current assets. Contributing to this increase was a \$1.0 million transfer from Berea Municipal Utilities (BMU), \$1.0 million from the sale of land in the Berea Industrial Park, and \$435,000 from the sale of real property on North Broadway Street.
- A decrease of \$655,000 (2%) in capital assets resulted from the sale of assets mentioned above.
- There was an increase of \$685,000 (13%) in deferred outflows of resources related to deferred contributions toward pension and OPEB expenses.
- There was an increase of \$593,000 (61%) in current liabilities, resulting mainly from payables related to projects being in progress at the end of the fiscal year as well as payments due on leased assets.
- An increase of \$3.4 million (12%) in long-term liabilities, primarily resulted from a \$1.7 million (13%) increase in net pension liability and a \$1.6 million (50%) increase in net OPEB liability.

**Business-type Activities.** Business-type activities increased the City's net position by \$ 3.2 million, thereby accounting for 71 percent of the total improvement in net position. *Key elements of this increase are as follows:*

- There was an increase of \$2.3 million (4%) in noncurrent assets. This increase is a result of contributions into the Utilities' depreciation fund that exceeds expenditures on infrastructure upgrades. During FY21, the majority of infrastructure projects were funded through grants proceeds.
- There was an increase of \$2.3 million (4%) in deferred outflows of resources related to deferred contributions toward pension and OPEB expenses.
- Long-term liabilities showed a total decrease of \$829,000 (5%). While business-type activities made debt service payments towards bonds and notes payable totaling \$1.8 million, the net pension liability increased by \$484,000 (11%) and the net OPEB liability increased by \$454,000 (40%).

Further details of the changes in net position between fiscal years 2021 and 2020 can be observed in Table 2.

**Table 2  
Changes in Net Position**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>2021 Total Primary Government</b>	<b>2020 Total Primary Government</b>
<u>Revenues</u>				
Program Revenues				
Charges for Services	\$ 47,717	\$ 18,331,025	\$ 18,378,742	\$ 18,987,839
Operating Grants & Contributions	1,620,040		1,620,040	1,747,877
Capital Grants & Contributions	149,949	927,683	1,077,632	2,379,742
General Revenue			-	-
Taxes	2,355,194		2,355,194	2,146,858
License fees	9,945,787		9,945,787	9,558,056
Permits	408,914		408,914	228,975
Investment Earnings	72,873	39,501	112,374	326,334
Other Revenues	149,746		149,746	144,648
<b>Total Revenues</b>	<u>14,750,220</u>	<u>19,298,209</u>	<u>34,048,429</u>	<u>35,520,329</u>
<u>Program Expenses</u>				
General Government	2,565,090		2,565,090	2,837,380
Public Safety - Police	4,092,578		4,092,578	3,857,297
Public Safety - Fire	2,771,133		2,771,133	2,700,929
Public Works	3,179,159		3,179,159	3,251,127
Codes enforcement	471,589		471,589	495,953
Parks and Recreation	920,690		920,690	884,353
GIS/Surveying	207,232		207,232	231,236
Business Development	147,126		147,126	114,169
Tourism	647,246		647,246	1,094,468
Information Technology	216,679		216,679	222,898
Interest on Long-term Debt	344,452		344,452	348,380
Utilities		15,129,102	15,129,102	14,174,154
<b>Total Program Expenses</b>	<u>15,562,974</u>	<u>15,129,102</u>	<u>30,692,076</u>	<u>30,212,344</u>
Transfers	1,000,000	(1,000,000)	-	-
Gain/(Loss) on Sale of Property	1,141,149	-	1,141,149	2,776
<b>Change in Net Position</b>	<u>\$ 1,328,395</u>	<u>\$ 3,169,107</u>	<u>\$ 4,497,502</u>	<u>\$ 5,310,761</u>

As stated previously, the City's net position increased by \$4.5 million compared to an increase in net position of \$5.3 million in fiscal year 2020. City-wide revenue decreased by \$1.4 million (4%), while expenses increased by roughly \$480,000 (2%).

**Governmental Activities.** Governmental activities increased the City's total net position by \$1.3 million. This is a considerable improvement from the decrease of \$582,000 in net position from the prior year.

Overall, governmental revenue was down by roughly \$707,000 (5%) from the previous year. *Key elements of this increase are as follows:*

- Charges for services decreased by \$246,000 (84%), which is attributed to the effects of COVID-19. The parks department was unable to have summer sporting events, the Berea Pool was unable to open for the 2020 swim season, and the 2020 Berea Craft Festival and Festival of Learnshops did not take place.
- The City continued to receive federal assistance through the CARES Act. The City was awarded initially awarded \$1.14 million of Coronavirus Relief Funds. Of this, \$779,000 was included as revenue in the prior year, with the remaining \$356,000 included in fiscal year 2021. In a second round of CARES Act funding, the City received an additional \$360,000.
- The governmental activities saw a \$1.1 million decrease in capital grants and contributions from the prior year. This decrease was a result of the acceptance of infrastructure valued at \$1.1 million in the previous year. There was no acceptance of infrastructure in FY2021.

Total program expenses decreased by \$476,000 (3%). *Key elements of this decrease are as follows:*

- General government program expenses decreased by \$273,000. Of this, \$197,000 is attributed to the indirect expense allocation of central services to other funds. These indirect expenses have been deducted from the general government expenses and added to the expenses of those functions to which they were allocated based on a per-established allocation method. These expenses were not allocated to the other funds in fiscal year 2020.
- Tourism expenses decreased by \$444,000. This was primarily due to the cancelation of the 2020 Craft Festival and Festival of Learnshops and closure of the Berea Welcome Center due to COVID-19. Also attributing to this decrease was a reduction in staffing and overall restructuring.
- Police services increased by \$235,000 (6%) and Fire services increased by \$70,000 (6%), attributed to increases in personnel cost. Parks and Recreation Business Development saw small increase (< \$35,000), while all other program areas saw decreases in expenses.

The governmental activities realized a \$1.1 million gain on the sale of property in the Berea Industrial Park and on North Broadway. The gain is calculated by proceeds of the sale less any undepreciated book value on the property. Additionally, the general fund received a \$1 million transfer from the Berea Municipal Utilities.

**Business-type Activities.** Business-type activities increased the City's total net position by \$3.2 million. This was down from the previous year's increase in net position of \$5.9 million.

Revenue was slightly down, showing a 2% decrease (\$315,000). *Key elements of this decrease are as follows:*

- The sale of electric, water and sewer service remained relatively consistent with slight variances attributed to temperature and other weather-related affects.
- Due to COVID-19, revenue from penalties and interest decreased by \$109,000 (50%). Penalties and interest were waived from March 2020 through January 2021.
- Investment income decreased by nearly \$100,000 (76%) due to CDs renewing at much lower interest rates.

- 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 \$285,000 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 \$587,000 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 increased by \$955,000 (7%). Key elements of this increase include:

- Expenses within the electric division increased by \$884,000 (11%). The majority of this increase resulted from a one-time \$694,000 true up credit received in the prior year from the previous power supplier. With the exception of this credit, the cost of purchase power remained consistent with the prior year.
- Expenses within the water division increased by \$91,000 (4%). Moderate increases in repairs and maintenance, legal fees and depreciations are the largest contributors to this increase.
- Expenses within the sewer division decreased by \$206,000 (8.6%). The main contributor is a decrease in depreciation expense of \$225,000 resulting from the 1985 \$11 million sewer plant project becoming fully depreciated during fiscal year 2021. Annual depreciation on this project was \$341,000 for 36 years.
- Administration expenses increased by \$194,000. As mentioned above, beginning in fiscal year 2021, certain indirect expense for shared services with general government were allocated benefiting funds based on a pre-established allocation method. These allocated expenses account for the majority of the total increase.

## **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**

	2021	2020
<b>Revenues</b>		
Taxes	\$ 2,355,197	\$ 2,146,858
Licenses and permits	10,354,701	9,787,031
Charges for Services	244,760	293,620
Fines & Forfeits	62,217	47,650
Intergovernmental	1,769,990	1,747,877
Other Revenues	154,372	288,204
<b>Total Revenues</b>	<u>14,941,237</u>	<u>14,311,240</u>
<b>Expenditures</b>		
General Government	2,004,809	2,129,684
Public Safety - Police	3,197,447	3,100,378
Public Safety - Fire	2,065,192	2,130,954
Public Works	2,110,545	2,283,733
Codes Enforcement	393,657	405,479
Parks and Recreation	646,137	605,298
GIS/Surveying	165,155	190,729
Business Development	141,694	107,748
Information Technology	201,407	173,467
Tourism	547,948	928,397
Capital Outlay	2,094,641	1,063,225
Debt Service	647,289	503,616
<b>Total Expenditures</b>	<u>14,215,921</u>	<u>13,622,708</u>
Excess revenues over (under) before other sources (uses)	<u>725,316</u>	<u>688,532</u>
<b>Other Financing Sources (Uses)</b>		
Proceeds from sale of assets	1,471,072	105,893
Financing proceeds	559,108	-
Transfers (to)/from other funds	1,000,000	-
<b>Total Other Financing Sources (Uses)</b>	<u>3,030,180</u>	<u>105,893</u>
<b>Net Change in Fund Balance</b>	<u><u>\$ 3,755,496</u></u>	<u><u>\$ 794,425</u></u>

Total fund balance for all governmental funds has increased by \$3.8 million from the prior year. The majority of this change in fund balance is from General Fund with an increase of \$2.4 million (21%), over half of which resulted from a \$1 million transfer from the Utilities Fund. Tourism's increase in fund balance was \$318,000 (19%). The Industrial Development Fund also saw a significant increase in fund balance as a result of a sale of a piece of property in the Berea Industrial Park. This fund's increase in fund balance totaled \$970,000. The Municipal Road Aid and Police Restricted Funds both saw small increases (< \$15,000). The Berea Craft Fair Fund is the only fund with a decrease in fund balance. The \$9,950 decrease in fund balance resulted from a \$10,000 transfer to General Fund to replace seed money provided by the General Fund in July 2014 when the City took over operation of the event.

In the prior discussion of changes in net position, it was noted that governmental revenue had decreased by \$707,000 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 nearly \$630,000 (4%). Licenses and permits, predominantly, occupational license fees, increased by almost \$568,000 (6%) as businesses and industry adjust to operations under COVID-19 guidelines. Increases in restaurant taxes and transient room taxes resulted in an overall increase of over \$208,000 (10%) in taxes.

Expenditures increased by slightly over \$593,000 (4%). Tourism functional areas continued to see decreases in expenditures directly related to actions taken surrounding the uncertainty of the COVID-19 situation. For instance, the cancellation of several events created a decrease in spending of approximately \$380,000. This decrease offset some of the \$1.0 million increase in capital spending resulting from the continuation of projects and other capital spending that had been halted in the previous year due to the uncertainties of the financial impact of COVID-19.

**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	\$ 898,000	\$ 1,038,038	\$ 140,038
Licenses, Permits & Billings	8,815,000	10,354,701	1,539,701
Charges for Services	69,000	240,610	171,610
Fines & Forfeitures	23,000	57,824	34,824
Intergovernmental	1,859,424	1,491,014	(368,410)
Other Revenue	223,700	123,952	(99,748)
<b>Total Revenues</b>	<b>\$ 11,888,124</b>	<b>\$ 13,306,139</b>	<b>\$ 1,418,015</b>

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

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Administration	\$ 2,558,050	\$ 1,973,936	\$ (584,114)
Police	3,495,800	3,197,447	(298,353)
Fire	2,263,450	2,065,192	(198,258)
Public Works	2,136,900	1,859,195	(277,705)
Codes Enforcement	460,300	393,657	(66,643)
Parks & Recreation	868,790	646,137	(222,653)
GIS/Surveying	198,850	165,155	(33,695)
Information Technology	291,050	201,407	(89,643)
Business Development	172,350	141,694	(30,656)
Capital Outlay	2,998,092	2,082,841	(915,251)
Debt Service	484,062	472,761	(11,301)
	<u>\$ 15,927,694</u>	<u>\$ 13,199,422</u>	<u>\$ (2,728,272)</u>
Total Expenditures	<u>\$ 15,927,694</u>	<u>\$ 13,199,422</u>	<u>\$ (2,728,272)</u>

The City historically budgets revenue conservatively to guard against the impact of an unexpected downturn of economic conditions throughout the year. Because of the uncertainty of COVID-19 effects revenue was originally budgeted based on the potential for significant shutdowns. At mid-year, revenue was amended for a more optimistic outlook while still allowing for unforeseen declines. As a result, revenue exceeded budgeted amounts by \$1.4 million. Taxes and licenses and permits exceeded budgets by \$140,000 and \$1.5 million, respectively. Charges for services exceeded budget by \$171,000 resulting from accounting treatment of the allocation of indirect expenses to other funds. This accounting treatment also resulted in budget shortfall within the other revenue category. Intergovernmental revenue did not meet budget expectations by just over \$368,000 as a result of grant funded projects not reaching fruition.

The City budgets expenditures based on realistic estimates of expenses but makes concerted efforts to eliminate unnecessary expenditures and reduce costs whenever possible. All functional areas within the General Fund ended the fiscal year under budgeted amounts, leading to an overall favorable budget variance of \$2.7 million. A significant contributor resulted from wage increases that were budgeted for a full year were not issued until mid-year. Additionally, the capital outlay category resulted from the postponement of the Ellipse Street Shared Use Path project.

### **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, 2021, totals \$69,422,569, not including construction in progress. This represents a 10 percent decrease from the prior year. Decreases occur when depreciation and disposals exceed capital additions.



Major capital asset additions during the year include:

- Purchase of a 2020 E-One Typhoon Fire Truck for \$529,364.
- New service additions and electric system upgrades totaling \$147,724. This includes utility line relocation to accommodate the Berea by-pass phase II.
- Purchase of a Case excavator with hydraulic thumb and quick coupler for \$115,042.
- Purchase of two 2021 police vehicles at a total cost of \$71,396.
- Purchase of real property at 138 Mount Vernon Road for \$60,000. This property is to be used for stormwater retention pond.
- Construction of the Tillie Off-Leash Dog Park for a cost of \$54,480.
- Purchase of a 2020 Chevy Double Cab 4x4 pickup for \$49,811.
- Completion of the Brushy Fork Trail project with a total project cost of \$36,923, of which \$8,164 was expended in FY21.

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

**Table 6  
Capital Assets**

			<b>2021 Total</b>	<b>2020 Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Primary Government</b>	<b>Primary Government</b>
Land, Buildings & Improvements	\$ 25,419,450	\$ 3,129,678	\$ 28,549,128	\$ 28,983,657
Construction in Progress	1,024,253	5,798,963	6,823,216	4,212,802
Infrastructure/Utility Plant	19,063,144	65,589,799	84,652,943	84,402,114
Vehicles, Equipment & Other	10,462,152	3,205,978	13,668,130	13,327,070
Total Capital Assets	<u>55,968,999</u>	<u>77,724,418</u>	<u>133,693,417</u>	<u>130,925,643</u>
Less Accumulated Depreciation	(18,819,370)	(39,016,386)	(57,835,756)	(54,503,074)
Total Net Capital Assets	<u>\$ 37,149,629</u>	<u>\$ 38,708,032</u>	<u>\$ 75,857,661</u>	<u>\$ 76,422,569</u>

In addition to purchased capital assets, the City leases capital assets. The net investment in leased assets \$542,392, the majority of which occurred in fiscal year 2021. Major capital lease additions include:

- Lease of three police vehicles with a present value of lease payments totaling \$167,162.
- Lease of police body cameras with a present value of lease payments totaling \$364,450.

Table 7 shows summary totals for the City's leased capital assets.

**Table 7  
Leased Assets**

			<b>2021 Total</b>	<b>2020 Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Primary Government</b>	<b>Primary Government</b>
Vehicles, Equipment & Other	609,795	6,663	\$ 616,458	57,349
Less Accumulated Amortization	<u>(71,956)</u>	<u>(2,110)</u>	<u>\$ (74,066)</u>	<u>(14,808)</u>
Total Net Investment in Leased Assets	<u>\$ 537,839</u>	<u>\$ 4,553</u>	<u>\$ 542,392</u>	<u>\$ 42,541</u>

## DEBT

The City's long-term debt at June 30, 2020, totaled \$48,219,952, which was a \$2.4 million (5%) increase during the fiscal year. The City made \$2.1 million in debt service principal payments on bonds, loans and lease notes. This included an extra \$70,000 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 \$2.2 million (12%). The City's proportionate share of the net OPEB liability increased by \$2.1 million (47.5%). Additionally, the City's liability for future lease payables increased by approximately \$348,000 due to newly leased assets.

Table 8 provides a summary of all of the City's outstanding indebtedness.

**Table 8  
Long Term Debt**

	Governmental Activities	Business-type Activities	2021	2020
			Total Primary Government	Total Primary Government
Leases	\$ 610,311	\$ -	\$ 610,311	\$ 765,311
Bonds Payable	10,255,500	5,345,000	15,600,500	17,002,000
Loans Payable	-	3,581,331	3,581,331	4,355,870
Lease Liability	347,574	3,597	351,171	3,597
Net Pension Liability	15,427,240	5,033,953	20,461,193	18,260,809
Net OPEB Liability	4,852,968	1,587,292	6,440,260	4,366,271
Compensated Absences	868,332	306,854	1,175,186	1,078,974
Total Debt Outstanding	<u>\$ 32,361,925</u>	<u>\$ 15,858,027</u>	<u>\$ 48,219,952</u>	<u>\$ 45,832,832</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Fiscal year 2022 signifies a renewed optimism following the economic uncertainty surrounding the COVID-19 pandemic. The 2022 Budget for the City of Berea illustrates the financial strength and progressive nature of the City and its leaders. The budget demonstrates the strength and operational support for our personnel, infrastructure improvements, capital purchases, and day to day maintenance and operational monies for all departments of the City.

The 2022 Budget continues to financially support the Fund Balance Reserve and the Capital Sinking Fund. The Fund Balance Reserve increased from \$2,700,000 to \$3,000,000. This Fund Balance Reserve establishes minimum levels for designated funds to ensure stable service delivery, meet future needs and protect against financial instability. The Capital Sinking fund maintains the prior year level of \$3,450,000 for major capital purchases or projects in the future. Amounts designated by these reserves are not budgeted and will require a budget amendment passed by Council before it can be allocated.

The City's major sources of revenue continue to be the Occupational Licenses fee, Insurance Premium tax, Franchise fees, Net Profits, and the collection of Property tax. The collection of Occupational License fees has stabilized after more than a year of disruption caused by COVID-19. The City is hopeful there will be revenue growth in the coming years related to the expansion

of two major industrial employers that will result in numerous high-quality job opportunities in our community. Furthermore, the addition of a 15-acre, indoor agriculture facility has put Berea on the map for a home for high-tech agricultural innovation. The fiscal year 2021 budget includes funding for site preparation for the expansion of the Berea Industrial Park in anticipation of continued growth.

Economic growth is also expected as a result of the completion of the Berea By-pass Phase II. This \$20 million, state funded project should be nearing completion in June 2023. The construction of this corridor will improve traffic flow within the City and provide additional opportunities for development. The City has already received numerous zoning changes requests and looks forward to the residential and commercial potential this will provide to the region.

One factor that most always challenges the financial integrity of the City is our ability to provide wages and benefits package for our employees that is competitive with the public and private sector. The 2022 budget provides for the transitioning of select police and fire personnel into the CERS Hazardous Duty pension system. It has been a long-held opinion that the absence of hazardous duty retirement was a severe detriment to attracting and retaining qualified public safety personnel. To offset the additional costs associated with participation in the hazardous duty pension plan, staffing levels have been reduced in both the police and fire departments.

As with previous years, infrastructure improvements remain the focus of the 2022 budget. Funding is provided for the completion of several General Fund projects such as the construction of the Chestnut Street Pavilion and a mountain bike course. Additionally, the construction of Ellipse Street Shared Use Path has been carried over from the 2021 budget due to delays. Berea Municipal Utilities also remains focused on upgrades to the water, sewer and electric systems. The Owsley Fork Dam project remains a top priority, as does completion of the Walnut Meadow Pump Station and South Middletown Sewer Trunk Line project.

In addition, upgrading our streets has become a priority due to the degrading the past few years. \$250,000 has been budgeted from the Municipal Road Aid Fund. This expenditure will cause our ending fund balance to be at a record low. However, these repairs are much needed, and the Administration will have to be more selective in future resurfacing projects.

The City is anticipating a continued focus on water, sewer and road infrastructure in the near future. The City of Berea has been allocated \$4.2 million of funds from the American Rescue Plan Act of 2021, half of which will be received in FY2022. Also, there are indicators that the Bipartisan Infrastructure Investment and Jobs Act will provide additional funding for the City for major projects. City leaders will work diligently over the next year to build a strategic framework that will identify and prioritize infrastructure projects that will be most beneficial to the future of Berea.

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

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of the City's Finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Meeks or Rose Beverly, at 212 Chestnut Street, Berea, Kentucky 40403.

**City of Berea, Kentucky**  
**Statement of Net Position**  
**June 30, 2021**

	Primary Government			2020 Totals
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 6,566,697	\$ 4,115,464	\$ 10,682,161	\$ 5,477,111
Investments - certificates of deposit	10,189,061	7,350,642	17,539,703	17,453,848
Receivables, net	1,932,254	2,939,313	4,871,567	5,434,844
Other receivables	-	120,167	120,167	733,766
Lease receivables - current	18,182	-	18,182	8,167
Interest receivable	7,535	3,499	11,034	11,014
Internal activity	276,772	(276,772)	-	-
Other assets	4,976	-	4,976	135,000
Total current assets	<u>18,995,477</u>	<u>14,252,313</u>	<u>33,247,790</u>	<u>29,253,750</u>
<b>Noncurrent assets</b>				
Restricted cash and cash equivalents	-	9,398,117	9,398,117	7,015,567
Inventory	-	685,610	685,610	731,457
Lease receivables - noncurrent	118,764	-	118,764	136,948
Net investment in leased assets	537,839	4,553	542,392	42,541
<b>Capital assets</b>				
Construction in progress	1,024,253	5,798,963	6,823,216	4,212,802
Land and easements	5,313,049	264,208	5,577,257	5,517,290
Land improvements, net	698,887	49,912	748,799	868,191
Buildings and improvements, net	12,812,069	1,532,631	14,344,700	15,139,882
Depreciable infrastructure, net	13,599,314	-	13,599,314	14,203,108
Plant and sewer system, net	-	10,260,397	10,260,397	10,902,679
Plant and electric system, net	-	8,187,964	8,187,964	8,549,585
Plant and water system, net	-	11,616,556	11,616,556	12,232,495
Vehicles and equipment, net	3,694,640	997,400	4,692,040	4,763,300
Software, net	7,418	-	7,418	33,237
Total noncurrent assets	<u>37,806,233</u>	<u>48,796,311</u>	<u>86,602,544</u>	<u>84,349,082</u>
Total Assets	<u>56,801,710</u>	<u>63,048,624</u>	<u>119,850,334</u>	<u>113,602,832</u>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension and OPEB	5,817,805	1,638,186	7,455,991	6,564,982
Defeasance on refunding	-	332,217	332,217	415,271
Total assets and deferred outflows of resources	<u>\$ 62,619,515</u>	<u>\$ 65,019,027</u>	<u>\$ 127,638,542</u>	<u>\$ 120,583,085</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 520,629	\$ 1,283,352	\$ 1,803,981	\$ 1,403,337
Accrued payroll	479,595	113,278	592,873	517,552
Accrued taxes and other liabilities	29,455	167,765	197,220	154,276
Accrued interest payable	162,712	3,309	166,021	167,123
Unearned revenue	12,645	-	12,645	620
Customer deposits	-	727,899	727,899	714,429
Compensated absences	6,500	-	6,500	1,731
Current portion of lease liability	111,248	1,257	112,505	11,176
Current portion of long-term obligations	234,089	1,818,145	2,052,234	2,010,456
Total current liabilities	<u>1,556,873</u>	<u>4,115,005</u>	<u>5,671,878</u>	<u>4,980,700</u>
<b>Noncurrent liabilities</b>				
Compensated absences	861,832	306,854	1,168,686	1,078,974
Noncurrent portion of long-term obligations	10,631,722	7,441,054	18,072,776	20,199,078
Net pension liability	15,427,240	5,033,953	20,461,193	18,260,809
Net OPEB liability	4,852,968	1,587,292	6,440,260	4,366,271
Lease liability	347,574	3,597	351,171	25,047
Total noncurrent liabilities	<u>32,121,336</u>	<u>14,372,750</u>	<u>46,494,086</u>	<u>43,930,179</u>
Total liabilities	<u>33,678,209</u>	<u>18,487,755</u>	<u>52,165,964</u>	<u>48,910,879</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - leases	96,070	-	96,070	110,266
Deferred inflows - pension and OPEB	1,245,846	349,049	1,594,895	2,277,829
<b>Net Position</b>				
Net invested in capital assets	26,283,819	29,448,832	55,732,651	54,213,035
<b>Restricted for</b>				
Debt service	-	997,059	997,059	975,039
Depreciation	-	8,401,058	8,401,058	6,040,528
Other purposes	399,096	-	399,096	379,114
Unrestricted	916,475	7,335,274	8,251,749	7,676,395
Total net position	<u>27,599,390</u>	<u>46,182,223</u>	<u>73,781,613</u>	<u>69,284,111</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 62,619,515</u>	<u>\$ 65,019,027</u>	<u>\$ 127,638,542</u>	<u>\$ 120,583,085</u>

**City of Berea, Kentucky  
Statement of Activities  
For the Year Ended June 30, 2021**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net Revenue (Expense)			2020 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	\$ 2,762,133	\$ (197,043)	\$ -	\$ 153,136	\$ 149,949	\$ (2,262,005)	\$ -	\$ (2,262,005)	\$ (2,630,992)
Public works	3,179,159	-	-	265,972	-	(2,913,187)	-	(2,913,187)	(1,834,440)
Public safety - fire	2,771,133	-	-	886,467	-	(1,884,666)	-	(1,884,666)	(2,193,789)
Public safety - police	4,092,578	-	22,282	306,557	-	(3,763,739)	-	(3,763,739)	(3,070,665)
Codes enforcement	471,589	-	8,350	-	-	(463,239)	-	(463,239)	(487,103)
GIS/Surveying	207,232	-	-	-	-	(207,232)	-	(207,232)	(231,236)
Business development	147,126	-	-	-	-	(147,126)	-	(147,126)	(114,169)
Tourism	601,867	45,379	4,150	7,908	-	(635,188)	-	(635,188)	(883,664)
Information technology	216,679	-	-	-	-	(216,679)	-	(216,679)	(222,898)
Interest on long-term debt	344,452	-	-	-	-	(344,452)	-	(344,452)	(348,380)
Parks and recreation	920,690	-	12,935	-	-	(907,755)	-	(907,755)	(833,357)
Total governmental activities	15,714,638	(151,664)	47,717	1,620,040	149,949	(13,745,268)	-	(13,745,268)	(12,850,693)
<b>Business-Type Activities</b>									
Berea municipal utilities	14,977,438	151,664	18,331,025	-	927,683	-	4,129,606	4,129,606	5,753,807
Total Business-Type Activities	14,977,438	151,664	18,331,025	-	927,683	-	4,129,606	4,129,606	5,753,807
<b>Total</b>	<b>\$ 30,692,076</b>	<b>\$ -</b>	<b>\$ 18,378,742</b>	<b>\$ 1,620,040</b>	<b>\$ 1,077,632</b>	<b>(13,745,268)</b>	<b>4,129,606</b>	<b>(9,615,662)</b>	<b>(7,096,886)</b>
<b>General revenues</b>									
Taxes:									
Property taxes, levied for general purposes						1,038,035	-	1,038,035	936,819
Transient room tax						135,021	-	135,021	141,448
Restaurant tax						1,182,138	-	1,182,138	1,068,591
Licenses fees:									
Franchise						1,099,008	-	1,099,008	1,107,478
Payroll						6,762,719	-	6,762,719	6,461,239
Insurance premiums						1,119,354	-	1,119,354	1,145,854
Occupational						946,234	-	946,234	822,486
ABC						18,472	-	18,472	20,999
Permits:									
Building						344,147	-	344,147	172,052
Electric						62,642	-	62,642	55,448
Other						2,125	-	2,125	1,475
Investment income						72,873	39,501	112,374	326,334
Miscellaneous						149,746	-	149,746	144,648
Total general revenues						12,932,514	39,501	12,972,015	12,404,871
Transfers						1,000,000	(1,000,000)	-	-
Gain/(loss) on disposal of capital assets						1,141,149	-	1,141,149	2,776
<b>Change in net position</b>						<b>1,328,395</b>	<b>3,169,107</b>	<b>4,497,502</b>	<b>5,310,761</b>
Net position, beginning, as originally stated						26,270,995	43,013,116	69,284,111	63,933,498
Prior period adjustment (see note 17)						-	-	-	39,852
Net position, beginning, as restated						26,270,995	43,013,116	69,284,111	63,973,350
<b>Net Position, ending</b>						<b>\$ 27,599,390</b>	<b>\$ 46,182,223</b>	<b>\$ 73,781,613</b>	<b>\$ 69,284,111</b>

**City of Berea, Kentucky**  
**Balance Sheet - Governmental Funds**  
**June 30, 2021**

	<u>General Fund</u>	<u>Tourism Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2020 Totals</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 4,387,489	\$ 726,270	\$ 1,452,938	\$ 6,566,697	\$ 1,865,073
Investments	9,036,836	1,041,585	110,640	10,189,061	10,133,555
Receivables, net	1,640,078	262,376	29,800	1,932,254	2,595,022
Interest receivable	6,444	976	115	7,535	7,521
Other assets	1,662	-	3,314	4,976	135,000
Due from other funds	332,729	1	-	332,730	85,580
	<u>\$ 15,405,238</u>	<u>\$ 2,031,208</u>	<u>\$ 1,596,807</u>	<u>\$ 19,033,253</u>	<u>\$ 14,821,751</u>
<b>Total assets</b>					
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 514,836	\$ 4,316	\$ 1,477	\$ 520,629	\$ 221,132
Accrued payroll and related liabilities	471,861	7,734	-	479,595	424,598
Accrued taxes and other liabilities	27,655	1,800	-	29,455	695
Compensated absences	6,500	-	-	6,500	1,731
Unearned revenue	-	-	12,645	12,645	620
Due to other funds	1	55,957	-	55,958	-
Total liabilities	<u>1,020,853</u>	<u>69,807</u>	<u>14,122</u>	<u>1,104,782</u>	<u>648,776</u>
<b>Fund Balances</b>					
Nonspendable	1,662	-	3,314	4,976	135,000
Restricted	-	-	399,096	399,096	379,114
Committed	6,670,585	-	-	6,670,585	5,614,000
Assigned	999,212	1,961,401	1,180,275	4,140,888	3,757,017
Unassigned	6,712,926	-	-	6,712,926	4,287,844
Total fund balance	<u>14,384,385</u>	<u>1,961,401</u>	<u>1,582,685</u>	<u>17,928,471</u>	<u>14,172,975</u>
Total Liabilities and Fund Balances	<u>\$ 15,405,238</u>	<u>\$ 2,031,208</u>	<u>\$ 1,596,807</u>	<u>\$ 19,033,253</u>	<u>\$ 14,821,751</u>

**City of Berea, Kentucky**  
**Governmental Funds**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**June 30, 2021**

Fund balances- total governmental funds		\$ 17,928,471
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
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 \$18,819,370.		37,149,630
Leased assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, net of accumulated amortization of \$71,956.		537,839
Lease receivables used in governmental activities are not financial resources and therefore are not reported in the fund financial statements		136,946
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds		(162,712)
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	5,817,805	
Deferred inflows related to pension and OPEB	(1,245,846)	
Deferred inflows leases	(96,070)	4,475,889
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	(10,865,811)	
Lease liability	(458,822)	
Compensated absences	(861,832)	
Net pension liability	(15,427,240)	
Net OPEB liability	(4,852,968)	(32,466,673)
Net Position of governmental activities		<u>\$ 27,599,390</u>



**City of Berea, Kentucky**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balances - Governmental Funds**  
**For the Year Ended June 30, 2021**

	<u>General Fund</u>	<u>Tourism Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	<u>2020 Totals</u>
<b>Revenues</b>					
Taxes	\$ 1,038,038	\$ 1,317,159	\$ -	\$ 2,355,197	\$ 2,146,858
Licenses and permits	10,354,701	-	-	10,354,701	9,787,031
Intergovernmental revenue	1,491,014	7,908	271,068	1,769,990	1,747,877
Charges for services	240,610	4,150	-	244,760	293,620
Fines and forfeits	57,824	4,393	-	62,217	47,650
Other revenues	123,952	28,753	1,667	154,372	288,204
Total revenue	<u>13,306,139</u>	<u>1,362,363</u>	<u>272,735</u>	<u>14,941,237</u>	<u>14,311,240</u>
<b>Expenditures</b>					
General administration	1,973,936	-	30,873	2,004,809	2,129,684
Public works	1,859,195	-	251,350	2,110,545	2,283,733
Public safety-fire	2,065,192	-	-	2,065,192	2,130,954
Public safety-police	3,197,447	-	-	3,197,447	3,100,378
Parks and recreation	646,137	-	-	646,137	605,298
Tourism	-	547,942	6	547,948	928,397
Codes enforcement	393,657	-	-	393,657	405,479
GIS/Surveying	165,155	-	-	165,155	190,729
Business development	141,694	-	-	141,694	107,748
Information technology	201,407	-	-	201,407	173,467
Debt service	472,761	174,528	-	647,289	503,616
Capital outlay	2,082,841	11,800	-	2,094,641	1,063,225
Total expenditures	<u>13,199,422</u>	<u>734,270</u>	<u>282,229</u>	<u>14,215,921</u>	<u>13,622,708</u>
Excess of revenues over (under) expenditures	106,717	628,093	(9,494)	725,316	688,532
<b>Other financing sources (uses):</b>					
Proceeds from sale of assets	471,072	-	1,000,000	1,471,072	105,893
Financing proceeds	559,108	-	-	559,108	-
Transfers (to) from other funds	1,320,000	(310,000)	(10,000)	1,000,000	-
Total other financing uses	<u>2,350,180</u>	<u>(310,000)</u>	<u>990,000</u>	<u>3,030,180</u>	<u>105,893</u>
<b>Net change in fund balance</b>	2,456,897	318,093	980,506	3,755,496	794,425
Fund balances, beginning	<u>11,927,488</u>	<u>1,643,308</u>	<u>602,179</u>	<u>14,172,975</u>	<u>13,378,550</u>
<b>Fund balances, ending</b>	<u>\$ 14,384,385</u>	<u>1,961,401</u>	<u>\$ 1,582,685</u>	<u>\$ 17,928,471</u>	<u>\$ 14,172,975</u>

**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, 2021**

Net change in fund balances - total governmental funds \$ 3,755,496

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	1,535,531	
Gain on sale of assets	1,098,239	
Proceeds from disposal of assets	(1,471,072)	
Depreciation expense	<u>(1,817,490)</u>	(654,792)

Governmental funds report receipts from leases as revenue while governmental activities recognize the revenue over the life of the lease.

Lease receipts	(8,168)	
Changes in interest on lease receivable	<u>14,198</u>	6,030

Governmental funds report lease payments as expenditures while governmental activities report amortization expense to allocate those expenditures over the life of the lease:

Amortization expense	<u>(46,781)</u>	(46,781)
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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	301,500	
Changes in interest on long term debt	<u>678</u>	302,178

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

Lease liability expenditures	119,372	119,372
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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	(37,276)	
Change in net OPEB liability	(314,570)	
Change in net pension liability	<u>(1,801,262)</u>	<u>(2,153,108)</u>

Change in Net Position of Governmental Activities \$ 1,328,395

**City of Berea, Kentucky**  
**Statement of Net Position - Proprietary Funds**  
**June 30, 2021**

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current assets		
Cash and cash equivalents	\$ 4,115,464	\$ 3,612,038
Investments - certificates of deposit	7,350,642	7,320,293
Receivables, net	2,939,313	2,839,822
Grant receivables	102,883	727,348
Other receivables	17,284	6,418
Interest receivable	3,499	3,493
<b>Total Current Assets</b>	<b>14,529,085</b>	<b>14,509,412</b>
Noncurrent assets		
Restricted cash and cash equivalents	9,398,117	7,015,567
Inventory	685,610	731,457
Net investment in leased assets	4,553	5,885
Capital assets		
Construction in progress	5,798,963	3,785,924
Land and easements	264,242	264,242
Land improvements	84,201	84,201
Buildings and improvements	2,781,234	2,781,234
Plant and electric equipment	15,343,907	15,196,184
Plant and water equipment	18,939,122	18,896,469
Plant and sewer equipment	31,306,770	31,246,317
Vehicles and equipment	3,205,978	3,132,416
Less accumulated depreciation	(39,016,386)	(36,768,834)
<b>Total Noncurrent Assets</b>	<b>48,796,311</b>	<b>46,371,062</b>
<b>Total assets</b>	<b>63,325,396</b>	<b>60,880,474</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows - pension and OPEB	1,638,186	1,432,393
Defeasance on refunding	332,217	415,271
<b>Total assets and deferred outflows of resources</b>	<b>\$ 65,295,799</b>	<b>\$ 62,728,138</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 1,283,352	\$ 1,182,205
Accrued payroll and related liabilities	113,278	92,954
Accrued taxes and other liabilities	167,765	153,581
Accrued interest payable	3,309	3,733
Customer deposits	727,899	714,429
Deferred revenue	-	-
Lease liability - current	1,257	1,140
Bonds, notes, and loans payable	1,818,145	1,783,025
Due to other funds	276,772	85,580
<b>Total current liabilities</b>	<b>4,391,777</b>	<b>4,016,647</b>
Noncurrent liabilities		
Compensated absences	306,854	254,418
Bonds, notes, and loans payable	7,441,054	9,259,198
Net OPEB liability	1,587,292	1,133,427
Net pension liability	5,033,953	4,550,046
Lease liability	3,597	4,853
<b>Total noncurrent liabilities</b>	<b>14,372,750</b>	<b>15,201,942</b>
<b>Total liabilities</b>	<b>18,764,527</b>	<b>19,218,589</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows - pension and OPEB	349,049	496,433
<b>Net Position</b>		
Net invested in capital assets	29,448,832	27,575,930
Restricted for debt service	997,059	975,039
Restricted for depreciation reserve	8,401,058	6,040,528
Unrestricted	7,335,274	8,421,619
<b>Total Net Position</b>	<b>46,182,223</b>	<b>43,013,116</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 65,295,799</b>	<b>\$ 62,728,138</b>

**City of Berea, Kentucky**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2021**

	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Electric service	\$ 11,848,743	\$ 11,980,756
Water service	3,227,082	3,278,199
Sewer service	2,786,218	2,889,631
Other revenues	468,982	545,633
Total Operating Revenues	18,331,025	18,694,219
<b>Operating expenses</b>		
Administration	1,686,530	1,493,947
Electric	7,986,203	7,074,375
Water	1,540,393	1,452,133
Sewer	1,384,821	1,370,260
Depreciation	2,248,885	2,467,610
Total operating expenses	14,846,832	13,858,325
Operating income	3,484,193	4,835,894
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment revenue	39,501	134,253
Interest expense	(216,486)	(250,045)
Amortization	(65,784)	(65,784)
Transfers from (to) other funds	(1,000,000)	-
Gain on disposal of capital assets	-	3,614
Total Nonoperating Revenues (Expenses)	(1,242,769)	(177,962)
Income before capital contributions	2,241,424	4,657,932
Capital contributions		
Electric, water and sewer connection fees	52,116	62,375
Grant revenues	875,567	1,171,367
<b>Change in Net Position</b>	3,169,107	5,891,674
Net Position - beginning,	43,013,116	37,121,442
<b>Net Position, ending</b>	\$ 46,182,223	\$ 43,013,116

**City of Berea, Kentucky**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2021**

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 18,858,603	\$ 18,078,239
Payments to suppliers	(9,162,893)	(8,402,836)
Payments to employee services and benefits	(2,480,373)	(2,299,082)
	7,215,337	7,376,321
<b>Cash flows from capital and related financing activities</b>		
Capital contributions	-	1,233,742
Principal paid on lease liability	(1,140)	(669)
Principal paid on capital debt	(1,783,025)	(1,757,954)
Purchases of capital assets and construction in progress	(2,337,431)	(1,673,462)
Proceeds from sale of capital assets	-	5,321
Interest paid on capital debt	(216,911)	(249,586)
	(4,338,507)	(2,442,608)
<b>Cash flows from investing activities</b>		
Investment activity, net	(30,349)	(137,744)
Interest and dividends	39,495	143,849
	9,146	6,105
Net increase in cash and cash equivalents	2,885,976	4,939,818
Balances-beginning of the year	10,627,605	5,687,787
<b>Balances-end of the year</b>	<b>\$ 13,513,581</b>	<b>\$ 10,627,605</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 3,484,193	\$ 4,835,894
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,248,885	2,468,387
Net pension and OPEB liability	529,551	520,456
Change in assets and liabilities:		
Receivables, net	514,108	(625,542)
Inventory	45,847	9,177
Due to/from other funds	191,192	49,914
Accounts payable	101,147	71,331
Accrued vacation, sick and holiday	52,436	35,333
Accrued payroll and related taxes	20,324	12,588
Accrued taxes	14,184	(10,002)
Customer deposits	13,470	9,562
	7,215,337	7,377,098
Net cash provided by operating activities	<b>\$ 7,215,337</b>	<b>\$ 7,377,098</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	\$ 4,115,464	\$ 3,612,038
Restricted cash	9,398,117	7,015,567
	13,513,581	10,627,605
Cash and cash equivalents - end of year	<b>\$ 13,513,581</b>	<b>\$ 10,627,605</b>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

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, 2021

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.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

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, 2021

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, 2021

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, 2020.

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, OPEB plan and lease contract in which the City is the lessor.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

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, 2020.

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, 2021

Note 1 - Summary of significant accounting policies (continued)

As of June 30, 2021, fund balances are composed of the following:

	General Fund	Tourism Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable	\$ 1,662	\$ -	\$ 3,314	\$ 4,976
Restricted:	-	-	-	-
Law Enforcement	-	-	91,103	91,103
Road surface repairs	-	-	307,993	307,993
Committed:				
Capital additions	220,585	-	-	220,585
Capital sinking fund	3,000,000	-	-	3,000,000
Fund balance reserve	3,450,000	-	-	3,450,000
Assigned:				
Capital additions	-	-	-	-
Debt service	-	155,000	-	155,000
Transfer to other fund	-	310,000	-	310,000
Other purposes	999,212	1,496,401	1,180,275	3,675,888
Unassigned	6,712,926	-	-	6,712,926
Total fund balances	<u>\$ 14,384,385</u>	<u>\$ 1,961,401</u>	<u>\$ 1,582,685</u>	<u>\$ 17,928,471</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 15, 2021, 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, 2021, 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.

Governmental Accounting Standards Board (GASB) Pronouncements

Implementation of new GASB standard: In the current fiscal year, the City implemented 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; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 1 - Summary of significant accounting policies (continued)

The following statements will become effective in future periods:

Statement No. 91. *Conduit Debt Obligations*—The objective of this statement is to better meet the information needs of the financial statement users by enhancing the comparability and consistency of conduit debt obligations reporting and reporting the related transactions and other events by state and local government issues. The requirements of this statement are effective for reporting periods beginning after December 15, 2021 (fiscal year 2022). The City continues to evaluate the impact of this statement on the City Financial statements.

Statement No. 92—In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practices issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2021. The City continues to evaluate the impact of this statement on the City Financial statements.

Statement No. 93—In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. Removal of LIBOR as an appropriate benchmark is effective for reporting periods ending after December 31, 2021, paragraphs regarding leases are effective for fiscal years beginning after June 15, 2021, and all other requirements are effective for reporting periods beginning after June 15, 2020. The City continues to evaluate the impact of this statement on the City Financial statements.

Statement No. 94—In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022. The City continues to evaluate the impact of this statement on the City Financial statements.

Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This statement is effective at various times, with some provisions effective immediately, and other provisions effective for fiscal years or reporting periods beginning after June 15, 2021 (fiscal year 2022). The City continues to evaluate the impact of this statement on the City Financial statements.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

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 \$37,606,229. At June 30, 2021, federal depository insurance covered \$1,000,000 of the City's deposits. The remainder is covered by \$36,606,229 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, 2021, consist entirely of certificates of deposit with maturities of one year or less.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

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	\$ 101,926	\$ 259,103	\$ -	\$ 361,029
Licenses, permits, billings	1,366,418	-	-	1,366,418
Charges for service	6,067	-	-	6,067
Intergovernmental	185,067	3,273	29,800	218,140
Other	42,600	-	-	42,600
Gross receivables	<u>1,702,078</u>	<u>262,376</u>	<u>29,800</u>	<u>1,994,254</u>
Less: allowance for uncollectible	(62,000)	-	-	(62,000)
Net receivables	<u>\$ 1,640,078</u>	<u>\$ 262,376</u>	<u>\$ 29,800</u>	<u>\$ 1,932,254</u>
Business-type Activities	<b>Total</b>			
Customer	\$ 3,109,313			
Less: allowance for uncollectible	(170,000)			
Net receivables	<u>\$ 2,939,313</u>			

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 3 – Receivables – (continued)

Leases Receivables

The City is reporting leases receivables of \$136,946 at June 30, 2021. For FY 2021, the City reported lease revenue of \$14,198 and interest revenue of \$3,232 related to lease payments received. These leases are summarized as follows:

Lease	Lease Receivable	Lease Revenue	Lease Interest Revenue
Cell Tower	\$ 103,245	\$ 7,458	\$ 3,232
Menelaus Road Farm	33,701	6,740	-
 Total	 \$ 136,946	 \$ 14,198	 \$ 3,232

Cell Tower Lease – In October 2005, the City entered into a 25-year lease agreement with a company for the lease of a cell phone tower. Based on this agreement, the City is receiving monthly payments through November 2030.

Menelaus Road Farm Lease - In May 2020, the City entered into a five-year lease agreement with an individual for the lease of real property. Based on this agreement, the City is receiving monthly payments through May 2024.

Future minimum lease payments to be received are as follows:

Year Ended June 30,	Principal	Interest
2022	\$ 18,162	\$ 6,105
2023	21,061	3,439
2024	21,937	2,800
2025	10,204	2,135
2026	10,765	1,821
Thereafter	54,817	3,837
 Total	 \$ 136,946	 \$ 20,137



City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 4 - Capital assets

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

	July 1, 2020	Additions	Deductions	June 30, 2021
<b>Governmental Activities:</b>				
Capital assets not depreciated:				
Land	\$ 5,253,049	\$ 60,000		\$ 5,313,049
Construction in progress	426,879	677,207	(79,833)	1,024,253
Totals	<u>5,679,928</u>	<u>737,207</u>	<u>(79,833)</u>	<u>6,337,302</u>
Capital assets being depreciated:				
Buildings and improvements	19,374,981	11,802	(431,986)	18,954,797
Land improvements	1,225,950	91,403	(165,747)	1,151,606
Software	316,915	-	-	316,915
Vehicles and equipment	9,877,740	732,046	(464,550)	10,145,236
Totals	<u>30,795,586</u>	<u>835,251</u>	<u>(1,062,283)</u>	<u>30,568,554</u>
Infrastructure assets	19,063,144	-	-	19,063,144
Total depreciable assets	<u>49,858,730</u>	<u>835,251</u>	<u>(1,062,283)</u>	<u>49,631,698</u>
Less accumulated depreciation:				
Buildings and improvements	5,886,510	524,947	(268,730)	6,142,727
Land improvements	411,814	40,905	-	452,719
Software	283,678	25,819	-	309,497
Vehicles and equipment	6,292,201	622,024	(463,628)	6,450,597
Infrastructure assets	4,860,035	603,795	-	5,463,830
Totals	<u>17,734,238</u>	<u>1,817,490</u>	<u>(732,358)</u>	<u>18,819,370</u>
Depreciable capital assets, net	<u>32,124,492</u>	<u>(982,239)</u>	<u>(329,925)</u>	<u>30,812,328</u>
Total capital assets, net	<u>\$37,804,420</u>	<u>\$ (245,032)</u>	<u>\$ (409,758)</u>	<u>\$ 37,149,630</u>
<b>Business-type Activities:</b>				
Capital assets not depreciated:				
Land and easements	\$ 264,242	\$ -	\$ -	\$ 264,242
Construction in progress	3,785,924	2,118,001	(104,962)	5,798,963
Totals	<u>4,050,166</u>	<u>2,118,001</u>	<u>(104,962)</u>	<u>6,063,205</u>
Capital assets being depreciated:				
Land improvements	84,201	-	-	84,201
Buildings and improvements	2,781,234	-	-	2,781,234
Electric system	15,196,184	147,723	-	15,343,907
Water system	18,896,469	42,653	-	18,939,122
Plant and sewer system	31,246,316	60,454	-	31,306,770
Vehicle and equipment	3,132,415	73,563	-	3,205,978
Totals	<u>71,336,819</u>	<u>324,393</u>	<u>-</u>	<u>71,661,212</u>
Less accumulated depreciation	<u>(36,768,834)</u>	<u>(2,247,552)</u>	<u>-</u>	<u>(39,016,386)</u>
Depreciable capital assets, net	<u>34,567,985</u>	<u>(1,923,159)</u>	<u>-</u>	<u>32,644,826</u>
Total capital assets, net	<u>\$38,618,151</u>	<u>\$ 194,842</u>	<u>\$ (104,962)</u>	<u>\$ 38,708,031</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 4 Capital assets (continued)

Depreciation expense was charged to the Governmental functions as follows:

General government	\$ 508,897
Police	156,304
Fire	189,019
Public works	667,020
Parks and recreation	199,924
Codes enforcement	9,087
GIS/Surveying	5,452
Tourism	81,787
Total depreciation expense	<u>\$ 1,817,490</u>

Note 5 - Construction in progress

The City is in progress on the following projects:

	<u>June 30, 2021</u>
Business-type Activities	
Raw Water - Owsley	\$ 2,513,551
Raw Water - Cowbell	10,883
Central Park North/Walnut Meadow	2,589,678
Chestnut Street Tank Valve Replacement & Telemetry	4,950
WWTP Drain Valve	12,161
2021 Sewer Rehab - Chestnut Court	667,740
Total construction in progress	<u>\$ 5,798,963</u>
Governmental Activities	
Mountain Bike Trail	\$ 48,801
Ellipse Street Shared Use Path	58,499
Scaffold Cane Shared Use Path	128,025
Rash Road Drainage	13,730
Cherry Road Drainage	145,140
Chestnut Court Drainage	182,772
Farmer's Market Pavilion	447,286
Total construction in progress	<u>\$ 1,024,253</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 6 – Leased Assets and Liabilities

The following is a summary of leased asset activity during the fiscal year:

Governmental Activities	Restated Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Leased Assets by Group				
Office equipment	\$ 50,687	\$ 27,496	\$ -	\$ 78,183
Vehicles	-	167,162	-	167,162
Police equipment	-	364,450	-	364,450
<b>Total leased assets</b>	<b>50,687</b>	<b>559,108</b>	<b>-</b>	<b>609,795</b>
Less accumulated amortization				
Office equipment	(14,031)	(10,336)	-	(24,367)
Vehicles	-	(11,144)	-	(11,144)
Police equipment	-	(36,445)	-	(36,445)
<b>Total accumulated amortization</b>	<b>(14,031)</b>	<b>(57,925)</b>	<b>-</b>	<b>(71,956)</b>
<b>Total leased assets, net</b>	<b>\$ 36,656</b>	<b>\$ 501,183</b>	<b>\$ -</b>	<b>\$ 537,839</b>
Business-Type Activities	Restated Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Leased Assets by Group				
Office equipment	\$ 6,663	\$ -	\$ -	\$ 6,663
<b>Total leased assets</b>	<b>\$ 6,663</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,663</b>
Less accumulated amortization				
Office equipment	(777)	(1,333)	-	(2,110)
<b>Total accumulated amortization</b>	<b>(777)</b>	<b>(1,333)</b>	<b>-</b>	<b>(2,110)</b>
<b>Total leased assets, net</b>	<b>\$ 5,886</b>	<b>(1,333)</b>	<b>-</b>	<b>\$ 4,553</b>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 6 – Leased Assets and Liabilities- (continued)

Lease agreements and liabilities are summarized as follows:

Governmental Activities

Group Description	# of Leases in Group	Date of Lease	Payment Terms	Annual Payment Amount	Annual Interest Rate	Total Lease Liability	Balance June 30, 2021
Office equipment	7	Mar-17 - Mar-21	5 years	\$1,488- \$4,552	2.12% - 9.8%	\$ 78,183	\$ 47,690
Vehicles	3	Mar-21	5 years	\$10,716 - \$13,056	3.56 - 3.67%	\$ 167,162	156,017
Police equipment	1	Jan-21	5 years	\$63,779	0%	\$ 364,450	255,115
Total							<u>\$ 458,822</u>

Business-Type Activities

Group Description	# of Leases in Group	Date of Lease	Payment Terms	Annual Payment Amount	Annual Interest Rate	Total Lease Liability	Balance June 30, 2021
Office equipment	1	Dec-19	5 years	\$ 1,677	9.80%	\$ 6,663	\$ 4,854

Annual requirements to amortize long-term lease obligations and related interest are as follows:

Governmental Activities

Year Ending June 30,	Principal	Interest
2022	\$ 111,248	\$ 5,558
2023	108,210	4,777
2024	108,448	3,991
2025	102,930	3,491
2026	27,986	2,213
Total	<u>\$ 458,822</u>	<u>\$ 20,030</u>

Business-Type Activities

Year Ending June 30,	Principal	Interest
2022	\$ 1,257	\$ 420
2023	1,386	291
2024	1,528	149
2025	683	17
Total	<u>\$ 4,854</u>	<u>\$ 877</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 7 - 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, 2021.

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, 2021, the City had a balance of \$1,345,635 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, 2021, the City had a balance of \$2,499,481 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, 2021, were \$5,370,000. As of June 30, 2021, the City had a balance of \$5,340,000 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, 2020	Additions	Deductions	June 30, 2021
Revenue bonds payable	\$ 6,600,000	\$ -	\$ (1,255,000)	\$ 5,345,000
Notes payable	4,355,870	-	(510,754)	3,845,116
Net OPEB liability	1,133,427	453,865		1,587,292
Lease liability	5,993	-	(1,139)	4,854
Net pension liability	4,550,046	483,907	-	5,033,953
Compensated absences	254,418	52,436	-	306,854
Total debt outstanding	<u>\$ 16,899,754</u>	<u>\$ 990,208</u>	<u>\$ (1,766,893)</u>	<u>\$ 16,123,069</u>
Less current portion of:				
Revenue bonds				1,285,000
Notes payable				515,873
Unamortized premium				17,271
Lease liability				1,257
Current portion				<u>1,819,401</u>
Add unamortized premium				69,082
Total long term obligation				<u>\$ 14,372,750</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 7 – 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, 2021:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total</u>
2022	1,800,873	187,871	8,678	1,997,422
2023	1,836,046	150,356	7,491	1,993,893
2024	1,876,250	108,968	6,318	1,991,536
2025	1,926,535	63,194	5,133	1,989,862
2026	536,884	16,165	3,939	556,988
2027-30	1,213,528	30,540	7,636	1,251,704
Total	<u>\$ 9,190,116</u>	<u>\$ 557,094</u>	<u>\$ 39,195</u>	<u>\$ 9,781,405</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, 2021, the depreciation fund had a balance of \$8,401,058.

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, 2021, the debt service fund had a balance of \$997,059.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 8 – Governmental activities – Long-Term Debt

*Notes Payable*

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

Note Agreement – Tolle Building – The City entered into a note 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 note 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 note is scheduled to be paid out on June 1, 2025, through a balloon payment. The balance of the note at June 30, 2021 was \$610,311.

*Bonds 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 note debt service:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	234,089	342,006	576,095
2023	241,106	335,070	576,176
2024	248,182	327,926	576,108
2025	519,934	320,571	840,505
2026	170,800	300,703	471,503
Thereafter	9,451,700	5,568,373	15,491,576
Total	<u>\$ 10,865,811</u>	<u>\$ 7,194,649</u>	<u>\$ 18,531,963</u>

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 8 – Governmental activities – Long-Term Debt (continued)

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

	June 30, 2020	Additions	Deductions	June 30, 2021
General Obligation bond payable	\$ 10,402,000	\$ -	\$ (146,500)	\$ 10,255,500
Notes payable - building	765,311	-	(155,000)	610,311
Net Pension liability	13,710,763	1,716,477	-	15,427,240
Net OPEB liability	3,232,844	1,620,124	-	4,852,968
Lease liability	36,223	559,108	(136,509)	458,822
Compensated absences	824,556	37,276	-	861,832
Total debt outstanding	<u>\$ 28,971,697</u>	<u>\$ 3,932,985</u>	<u>\$ (438,009)</u>	<u>\$ 32,466,673</u>
Less current portion of:				
Leases payable				\$ 83,089
General Obligation bond payable				151,000
Lease liability				111,248
Current portion				<u>345,337</u>
Total long - term obligation				<u>\$ 32,121,336</u>

Note 9 – 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, 2021 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, 2021 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 10 – Transfers

The following were made during the year:

Fund	Transfers In	Transfers Out
General Fund	\$ 1,320,000	\$ -
Tourism Fund	-	310,000
Berea Craft Festival Fund	-	10,000
Proprietary Fund	-	1,000,000
Total	<u>\$ 1,320,000</u>	<u>\$ 1,320,000</u>

The primary purpose of the interfund transfers for the Tourism Fund was to transfer funds for the purpose of capital outlay. The purpose of the \$1,000,000 transfer from the proprietary fund to the General fund was to transfer the operational surplus.



City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - 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, 2021, 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, 2021, 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 \$1,711,900 for the year ended June 30, 2021, or 100% of the required contribution. The contribution was allocated \$1,373,220 to the CERS pension fund and \$338,680 for the CERS insurance fund.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - 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, 2021, the City reported a liability of \$20,461,193 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the City's proportion was .267 percent, which was an increase of .007 percent from its proportion at June 30, 2019 (.260 percent).

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - Retirement plan (continued)

For the year ended June 30, 2021, the City recognized pension expense of \$3,650,871. At June 30, 2021, 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	\$ 510,237	\$ -
Changes of assumptions	798,975	-
Net difference between projected and actual earnings on Plan investments	886,924	374,908
Changes in proposition and differences between City contributions and proportionate share of contributions	608,862	-
City contributions subsequent to the measurement date	1,373,220	-
Total	\$ 4,178,218	\$ 374,908

The \$1,373,220 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, 2022. 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,

2022	\$ 1,191,188
2023	763,320
2024	269,944
2025	205,638

*Actuarial Methods and Assumptions*

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date of June 30, 2019. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020, using generally accepted actuarial principles.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - Retirement plan (continued)

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 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 NonHazardous System, and the Pub-2010 Public Safety Mortality table for the 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 2020. 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 projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - 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	4.50%	18.75%
Non-U.S. Equity	5.25%	18.75%
Core Bonds	-0.25%	13.50%
Specialty Credit/ High Yield	3.90%	15.00%
Real Estate	5.30%	5.00%
Opportunistic Return	2.25%	3.00%
Real Return	3.95%	15.00%
Private Equity	6.65%	10.00%
Cash	-0.75%	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%	\$ 25,233,102
Current discount rate	6.25%	\$ 20,461,192
1% increase	7.25%	\$ 16,509,869

*Payable to the Pension Plan* – At June 30, 2021, the City reported a payable of \$158,622 for the outstanding amount of contributions to the pension and OPEB plans required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 11 - 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 58 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 2020. During the fiscal year 2021 employees contributed \$103,737 to the 457(b) plan and \$13,240 to the 401(k) plan.

Note 12 – 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>\$ 3,277,773</u>
Deferred Inflows of Resources	<u>\$ 1,219,985</u>
Net OPEB Liability:	<u>\$ 6,440,260</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, 2021 was 4.76% of covered payroll. Contributions to the Insurance Fund from the City were \$338,680 for the year ended June 30, 2021. 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, 2021

Note 12 – 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, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	25 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	
Pre--65	Initial trend starting at 7.00% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65	Initial trends starting at 5.00% and gradually decreasing to an ultimate Trend rate of 4.05% over a period of 10 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*

Single discount rate of 5.34% for the non-hazardous system was used to measure the total OPEB liability as of June 30, 2020. The single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and it is our understanding that any cost associated with the implicit subsidy will not be paid out of the System's trust. 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, 2021

Note 12 – 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	4.50%	18.75%
Non-U.S. Equity	5.25%	18.75%
Core Bonds	-0.25%	13.50%
Specialty Credit/ High Yield	3.90%	15.00%
Real Estate	5.30%	5.00%
Opportunistic Return	2.25%	3.00%
Real Return	3.95%	15.00%
Private Equity	6.65%	10.00%
Cash	-0.75%	1.00%
		100.00%

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

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.34%) or one percentage point higher (6.34%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.34%	\$ 8,273,843
Current discount rate	5.34%	\$ 6,440,260
1% increase	6.34%	\$ 4,934,277



City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 12 – 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	\$ 4,986,371
Current healthcare rate	\$ 6,440,260
1% increase	\$ 8,204,588

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

At June 30, 2021, the City reported a liability of \$6,440,260 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020 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 2020. This method to be reflective of the employers' long-term contribution effort. At June 30, 2020, the City's proportion was 0.266711%

For the year ended June 30, 2021, the City recognized OPEB expense of \$932,056. At June 30, 2021, 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	\$ 239,306	\$ 4,886
Implicit subsidy	158,058	-
Differences between expected and actual results	1,076,032	1,076,873
Changes of assumptions	1,120,224	6,812
Net difference between projected and actual earnings on Plan investments	345,473	131,414
City contributions subsequent to the measurement date	338,680	-
Total	\$ 3,277,773	\$ 1,219,985

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 12 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

The \$338,680 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, 2022. 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,	
2022	\$ 412,856
2023	476,205
2024	354,717
2025	326,945
2026	(9,673)
Thereafter	-

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 13 - Property tax rates and calendar

Property taxes for fiscal year 2021 were levied in November 2020 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 14 - 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, 2021

Note 15 - 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 16 - 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 2021.

Note 17 – Change in Accounting Principle and Restatement

The GASB has issued Statement No. 87, "Leases". The provisions in Statement 87 are effective for fiscal years beginning after December 15, 2020. The City has early implemented this statement, to its financial statements for the year ending June 30, 2021, effective July 1, 2019. As a result of the implementation, the City restated certain Fiscal Year 2020 balances for governmental and business-type activities as noted below:

Governmental Activities	Balance As Originally Reported	Impact of Restatement	Balance As Restated
Lease receivables	\$ -	\$ 145,115	\$ 145,115
Net investment in leased assets	\$ -	\$ 36,656	\$ 36,656
Lease liability	\$ -	\$ 30,230	\$ 30,230
Deferred inflows - leases	\$ -	\$ 110,266	\$ 110,266
Net position, beginning	\$ 26,812,056	\$ 39,852	\$ 26,851,908
Net position, ending	\$ 26,228,720	\$ 41,275	\$ 26,269,995
General government expenses	\$ 2,836,928	\$ (548)	\$ 2,836,380
Miscellaneous revenue	\$ 143,773	875	\$ 144,648

City of Berea, Kentucky  
Notes to Financial Statements  
June 30, 2021

Note 17 – Prior Period Adjustment (continued)

Business-type Activities	June 30, 2020 Balance As Originally Reported	Impact of Restatement	June 30, 2020 Balance As Restated
<u>Accounts</u>			
Net investment in leased assets	\$ -	\$ 5,885	\$ 5,885
Lease liability	\$ -	\$ 5,993	\$ 5,993
Net position, ending	\$ 43,013,224	\$ (108)	\$ 43,013,116
Operating expenses - Administration	\$ 1,494,616	\$ (669)	\$ 1,493,947
Interest expense	\$ 249,268	777	\$ 250,045

Note 18 – Subsequent Events

The City has evaluated subsequent events through October 15, 2021, the date which the financial statements were available to be issued.

On June 1, 2021, the City adopted a resolution to transfer the fire and police departments from non-hazardous coverage designation to a tier II hazardous employee designation as defined by the Kentucky Retirement System which becomes effective on July 1, 2021.

**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, 2021**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Municipal taxation</b>				
General property taxes	\$ 775,000	\$ 775,000	\$ 792,687	\$ 17,687
State assessment property taxes	14,000	14,000	18,827	4,827
In lieu of property tax	9,000	9,000	23,367	14,367
Delinquent property taxes	10,000	10,000	40,079	30,079
Bank deposit taxes	40,000	40,000	71,801	31,801
Motor vehicle taxes	50,000	50,000	91,277	41,277
	<u>898,000</u>	<u>898,000</u>	<u>1,038,038</u>	<u>140,038</u>
<b>Licenses, permits, billings</b>				
Occupational license fees				
Insurance	900,000	900,000	1,119,354	219,354
Employee withholding	4,800,000	6,000,000	6,762,719	762,719
Net profits	650,000	650,000	874,220	224,220
Individual	40,000	40,000	61,749	21,749
Business	9,000	9,000	10,265	1,265
ABC	7,000	7,000	18,472	11,472
Utility franchise fees	1,023,000	1,023,000	1,099,008	76,008
Building permits	65,000	155,000	344,147	189,147
Electric permits	30,000	30,000	62,642	32,642
Street cut permits	1,000	1,000	2,125	1,125
	<u>7,525,000</u>	<u>8,815,000</u>	<u>10,354,701</u>	<u>1,539,701</u>
<b>Charges for service</b>				
Court costs & fees	5,000	5,000	12,725	7,725
Accident reports	2,000	2,000	2,610	610
Codes - plat review fee	4,000	4,000	8,350	4,350
Police special services	10,000	10,000	6,947	(3,053)
Demolition cleanup	-	-	-	-
Parks concessions	7,000	7,000	-	(7,000)
Pool concessions	10,000	10,000	-	(10,000)
Swimming pool fees	30,000	30,000	12,935	(17,065)
Administrative overhead - indirect	-	-	197,043	197,043
Miscellaneous	1,000	1,000	-	(1,000)
	<u>69,000</u>	<u>69,000</u>	<u>240,610</u>	<u>171,610</u>
<b>Fines and forfeits</b>				
Fingerprint charges	1,000	1,000	255	(745)
Court restitution	-	-	-	-
Codes violations	-	-	14,004	14,004
Penalties and interest	21,000	21,000	43,100	22,100
Parking fines	1,000	1,000	465	(535)
	<u>23,000</u>	<u>23,000</u>	<u>57,824</u>	<u>34,824</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, 2021**

	<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	\$ 139,076	\$ 19,076
Madison county grants	68,000	68,000	38,000	(30,000)
Other grants	500,000	1,420,924	1,020,114	(400,810)
Volunteer fire state aid	10,500	10,500	10,500	-
Police incentive pay	140,000	140,000	162,386	22,386
Fire incentive pay	100,000	100,000	120,938	20,938
	<u>938,500</u>	<u>1,859,424</u>	<u>1,491,014</u>	<u>(368,410)</u>
<b>Other revenue</b>				
Rental income	40,500	40,700	46,995	6,295
Interest income	76,000	76,000	49,530	(26,470)
Insurance proceeds	-	45,000	10,918	(34,082)
Miscellaneous	17,000	62,000	16,509	(45,491)
	<u>133,500</u>	<u>223,700</u>	<u>123,952</u>	<u>(99,748)</u>
<b>Total revenue</b>	<u>9,587,000</u>	<u>11,888,124</u>	<u>13,306,139</u>	<u>1,418,015</u>
<b>Expenses</b>				
<b>Administration</b>				
General government				
Personnel	-	-	-	-
Utilities	71,000	71,000	56,059	14,941
Materials and supplies	14,000	18,000	16,443	1,557
Services and support	504,000	534,000	565,920	(31,920)
Other expenditures	5,000	5,000	760	4,240
Administration				-
Personnel	288,500	297,500	290,433	7,067
Materials and supplies	13,500	13,500	6,598	6,902
Services and support	150,000	192,000	189,864	2,136
Other expenditures	11,000	11,000	9,226	1,774
City council				-
Personnel	58,100	58,100	55,411	2,689
Services and support	61,000	61,000	55,211	5,789
Other expenditures	344,000	424,000	311,988	112,012
Finance office				-
Personnel	549,000	580,000	299,536	280,464
Materials and supplies	5,000	14,000	4,693	9,307
Services and support	72,000	268,450	108,891	159,559
Other expenditures	-	10,500	2,903	7,597
<b>Total Administration</b>	<u>2,146,100</u>	<u>2,558,050</u>	<u>1,973,936</u>	<u>584,114</u>
<b>Police</b>				
Personnel	2,809,500	3,175,000	2,910,212	264,788
Utilities	21,000	24,000	24,241	(241)
Materials and supplies	118,000	157,800	150,353	7,447
Services and support	63,000	70,500	61,723	8,777
Other expenditures	32,500	68,500	50,918	17,582
<b>Total police department</b>	<u>\$ 3,044,000</u>	<u>\$ 3,495,800</u>	<u>\$ 3,197,447</u>	<u>\$ 298,353</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, 2021**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Fire</b>				
Personnel	\$ 1,908,500	\$ 2,034,000	\$ 1,911,922	\$ 122,078
Utilities	12,450	12,450	8,719	3,731
Materials and supplies	113,500	113,500	93,758	19,742
Services and support	60,400	92,900	44,411	48,489
Other expenditures	9,500	10,600	6,382	4,218
Total fire department	<u>2,104,350</u>	<u>2,263,450</u>	<u>2,065,192</u>	<u>198,258</u>
<b>Public works</b>				
Personnel	1,337,500	1,442,500	1,341,476	101,024
Utilities	137,050	137,050	133,199	3,851
Materials and supplies	186,850	229,350	157,627	71,723
Services and support	319,000	320,000	225,002	94,998
Other expenditures	8,000	8,000	1,891	6,109
Total public works	<u>1,988,400</u>	<u>2,136,900</u>	<u>1,859,195</u>	<u>277,705</u>
<b>Codes enforcement</b>				
Personnel	345,600	357,800	337,616	20,184
Materials and supplies	16,000	16,000	11,090	4,910
Services and support	61,000	78,000	43,033	34,967
Other expenditures	8,500	8,500	1,918	6,582
Total codes enforcement	<u>431,100</u>	<u>460,300</u>	<u>393,657</u>	<u>66,643</u>
<b>Parks and recreation</b>				
Parks and recreation				
Personnel	322,000	332,500	263,732	68,768
Utilities	94,590	100,090	75,895	24,195
Materials and supplies	45,500	49,500	36,404	13,096
Services and support	64,300	222,300	133,016	89,284
Other expenditures	23,000	23,000	21,120	1,880
Pool				
Personnel	38,500	40,500	34,898	5,602
Utilities	13,500	13,500	15,561	(2,061)
Materials and supplies	29,600	32,600	25,162	7,438
Services and support	26,500	26,000	19,605	6,395
Other expenditures	2,900	3,100	-	3,100
Intergenerational center				
Utilities	18,700	18,700	14,208	4,492
Services and support	5,000	7,000	6,536	464
Total parks and recreation	<u>\$ 684,090</u>	<u>\$ 868,790</u>	<u>\$ 646,137</u>	<u>\$ 222,653</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, 2021**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>GIS/Surveying</b>				
Personnel	\$ 152,800	\$ 158,100	\$ 148,188	\$ 9,912
Materials and supplies	5,850	6,350	1,774	4,576
Services and support	19,500	19,000	5,937	13,063
Other expenditures	15,400	15,400	9,256	6,144
Total GIS/surveying	<u>193,550</u>	<u>198,850</u>	<u>165,155</u>	<u>33,695</u>
<b>Business development</b>				
Personnel	82,050	86,500	85,994	506
Materials and supplies	3,850	3,850	457	3,393
Services and support	28,500	68,500	53,136	15,364
Other expenditures	13,500	13,500	2,107	11,393
Total business development	<u>127,900</u>	<u>172,350</u>	<u>141,694</u>	<u>30,656</u>
<b>Information technology</b>				
Personnel	157,000	165,000	137,995	27,005
Utilities	92,500	92,500	49,732	42,768
Materials and supplies	7,500	9,000	3,251	5,749
Services and support	18,550	18,550	10,379	8,171
Other expenditures	6,000	6,000	50	5,950
Total information technology	<u>281,550</u>	<u>291,050</u>	<u>201,407</u>	<u>89,643</u>
<b>Capital outlay</b>	<u>1,675,592</u>	<u>2,998,092</u>	<u>2,082,841</u>	<u>915,251</u>
<b>Debt service</b>	<u>471,562</u>	<u>484,062</u>	<u>472,761</u>	<u>11,301</u>
<b>Total expenditures</b>	<u>13,148,194</u>	<u>15,927,694</u>	<u>13,199,422</u>	<u>2,728,272</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of assets	-	435,000	471,072	36,072
Financing proceeds	-	241,000	559,108	318,108
Transfers in (out)	1,457,500	1,526,500	1,320,000	(206,500)
<b>Total other financing sources (uses)</b>	<u>1,457,500</u>	<u>2,202,500</u>	<u>2,350,180</u>	<u>147,680</u>
<b>Net change in fund balance</b>	<u>\$ (2,103,694)</u>	<u>\$ (1,837,070)</u>	<u>\$ 2,456,897</u>	<u>\$ (1,162,577)</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, 2021**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Municipal taxation</b>				
Transient room tax	\$ 125,000	\$ 125,000	\$ 135,021	\$ 10,021
Restaurant tax	700,000	700,000	1,182,138	482,138
<b>Intergovernmental</b>				
Grant revenues	15,000	15,000	7,908	(7,092)
<b>Charges for service</b>				
Workshop fees	75,000	4,200	4,150	(50)
<b>Other revenue</b>				
Miscellaneous	28,700	28,700	33,146	4,446
<b>Total revenue</b>	<u>943,700</u>	<u>872,900</u>	<u>1,362,363</u>	<u>489,463</u>
<b>Tourism</b>				
Personnel	285,000	286,700	209,839	76,861
Utilities	42,500	42,500	26,404	16,096
Materials and supplies	18,200	18,200	8,744	9,456
Services and support	316,500	316,500	240,173	76,327
Other expenditures	169,000	100,200	62,782	37,418
<b>Capital outlay</b>	-	12,000	11,800	200
<b>Debt service</b>	176,000	176,000	174,528	1,472
<b>Total expenditures</b>	<u>1,007,200</u>	<u>952,100</u>	<u>734,270</u>	<u>217,830</u>
<b>Other financing sources (uses)</b>				
Transfers in (out)	(310,000)	(310,000)	(310,000)	-
<b>Total other financing sources (uses)</b>	<u>(310,000)</u>	<u>(310,000)</u>	<u>(310,000)</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ (373,500)</u>	<u>\$ (389,200)</u>	<u>\$ 318,093</u>	<u>\$ 707,293</u>

**City of Berea, Kentucky**  
**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System**  
**Last Eight 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>	<u>June 30, 2021</u>
City's proportion of the net pension liability	0.223%	0.223%	0.226%	0.220%	0.243%	0.251%	0.260%	0.267%
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	\$ 20,461,192
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	\$ 7,115,130
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%	287.57%
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%	47.81%

**City of Berea, Kentucky**  
**Schedule of the City's Pension Contributions**  
**County Employees' Retirement System**  
**Last Eight 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>	<u>June 30, 2021</u>
Contractually required contribution	\$ 717,733	\$ 687,771	\$ 700,074	\$ 849,923	\$ 922,430	\$ 1,087,794	\$ 1,341,103	\$ 1,373,220
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>	<u>1,373,220</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 7,115,130
Contributions as a percentage of covered employee	13.74%	12.75%	12.42%	13.95%	14.48%	16.22%	19.87%	19.30%

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

	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>
Contractually required contribution	\$ 299,408	\$ 352,761	\$ 330,759	\$ 338,680
Contributions in relation to the contractually required contribution	<u>299,408</u>	<u>352,761</u>	<u>330,759</u>	<u>338,680</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 6,370,339	\$ 6,706,498	\$ 6,948,720	\$ 7,115,130
Contributions as a percentage of covered-employee payroll	4.70%	5.26%	4.76%	4.76%

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

<b>Change in the Net OPEB Liability</b>	<b>June 30, 2018</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>June 30, 2021</b>
<b>Total OPEB liability</b>				
Service Cost	\$ 207	\$ 307	\$ 309	\$ 350
Interest	584	607	623	630
Benefit Changes	-	11	-	-
Difference between actual and expected experience	(16)	(603)	(1,049)	1,349
Assumption Changes	1,262	(12)	698	161
Benefit Payments	(340)	(392)	(420)	(503)
<b>Net Change on Total OPEB Liability</b>	1,697	(82)	161	1,987
Total OPEB Liability - Beginning	<b>8,546</b>	10,589	10,872	11,342
<b>Total OPEB Liability - Ending</b>	<b>\$ 10,243</b>	<b>\$ 10,507</b>	<b>\$ 11,033</b>	<b>\$ 13,329</b>
<b>Fiduciary Net Position</b>				
Contributions - Employer	\$ 323	\$ 366	\$ 436	\$ 479
Contributions - Member	22	27	31	35
Benefit Payments	(340)	(392)	(420)	(503)
Net Investment Income	642	507	357	24
Administrative Expense	(2)	(2)	(2)	(2)
Other	-	-	-	-
<b>Net Change in Fiduciary Net Position</b>	645	506	402	33
Fiduciary Net Position - Beginning	<b>4,722</b>	5,548	6,265	6,855
<b>Fiduciary Net Position - Ending</b>	<b>\$ 5,367</b>	<b>\$ 6,054</b>	<b>\$ 6,667</b>	<b>\$ 6,888</b>
<b>Net OPEB Liability - Ending</b>	<b>4,876</b>	<b>4,453</b>	<b>4,366</b>	<b>6,441</b>
Fiduciary Net Position as a Percentage of the Total OPEB Liability	52.4%	57.6%	60.4%	51.7%
Covered Payroll	6,370	\$ 6,706	\$ 6,949	\$ 7,115
Net OPEB Liability as a Percentage of Covered Payroll	76.5%	66.4%	62.8%	90.5%

## **SUPPLEMENTAL INFORMATION**

**City of Berea, Kentucky**  
**Proprietary Fund**  
**Budget Information**  
**For the Year Ended June 30, 2021**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Berea Municipal Utilities</b>				
Administration				
Personnel	\$ 653,500	\$ 683,500	\$ 1,094,335	\$ (410,835)
Utilities	72,500	72,500	61,943	10,557
Materials and supplies	35,300	35,300	31,184	4,116
Services and support	361,250	366,250	412,838	(46,588)
Other expenses	36,000	36,000	86,230	(50,230)
	<u>1,158,550</u>	<u>1,193,550</u>	<u>1,686,530</u>	<u>(492,980)</u>
Electric				
Personnel	697,500	762,200	776,963	(14,763)
Utilities	4,675	4,675	4,469	206
Materials and supplies	49,800	49,800	38,324	11,476
Services and support	8,028,500	8,088,500	7,073,715	1,014,785
Other expenditures	157,000	179,500	92,732	86,768
	<u>8,937,475</u>	<u>9,084,675</u>	<u>7,986,203</u>	<u>1,098,472</u>
Water				
Personnel	601,600	622,500	703,613	(81,113)
Utilities	295,775	295,775	259,016	36,759
Materials and supplies	153,300	153,300	120,375	32,925
Services and support	480,000	483,000	399,474	83,526
Other expenditures	50,450	53,500	57,915	(4,415)
	<u>1,581,125</u>	<u>1,608,075</u>	<u>1,540,393</u>	<u>67,682</u>
Sewer				
Personnel	645,500	673,000	796,983	(123,983)
Utilities	209,500	209,500	192,558	16,942
Materials and supplies	81,800	81,800	59,432	22,368
Services and support	445,500	445,500	308,805	136,695
Other expenditures	42,500	46,500	27,043	19,457
	<u>1,424,800</u>	<u>1,456,300</u>	<u>1,384,821</u>	<u>71,479</u>
Total expenses	<u>\$ 13,101,950</u>	<u>\$ 13,342,600</u>	<u>\$ 12,597,947</u>	<u>\$ 744,653</u>



**City of Berea, Kentucky  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2021**

	<u>Municipal Road Aid Fund</u>	<u>Industrial Development Fund</u>	<u>Police Restricted Fund</u>	<u>Berea Craft Festival Fund</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 278,193	\$ 1,005,849	\$ 91,103	\$ 77,793	\$ 1,452,938
Investments	-	110,640	-	-	110,640
Accounts receivable	29,800	-	-	-	29,800
Interest receivable	-	115	-	-	115
Other assets	-	-	-	3,314	3,314
<b>Total Assets</b>	<u><u>\$ 307,993</u></u>	<u><u>\$ 1,116,604</u></u>	<u><u>\$ 91,103</u></u>	<u><u>\$ 81,107</u></u>	<u><u>\$ 1,596,807</u></u>
<b>LIABILITIES AND FUND BALANCE</b>					
Accounts payable	\$ -	1,163	\$ -	\$ 314	\$ 1,477
Unearned revenue	-	-	-	12,645	12,645
<b>Total Liabilities</b>	-	1,163	-	12,959	14,122
Fund Balance, nonspendable	-	-	-	3,314	3,314
Fund Balance, restricted	307,993	-	91,103	-	399,096
Fund Balance, assigned	-	1,115,441	-	64,834	1,180,275
<b>Total Fund Balance</b>	<u><u>307,993</u></u>	<u><u>1,115,441</u></u>	<u><u>91,103</u></u>	<u><u>68,148</u></u>	<u><u>1,582,685</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 307,993</u></u>	<u><u>\$ 1,116,604</u></u>	<u><u>\$ 91,103</u></u>	<u><u>\$ 81,107</u></u>	<u><u>\$ 1,596,807</u></u>

**City of Berea, Kentucky**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**June 30, 2021**

	<b>Municipal Road Aid Fund</b>	<b>Industrial Development Fund</b>	<b>Police Restricted Fund</b>	<b>Berea Craft Festival Fund</b>	<b>Total</b>
<b>Revenues</b>					
Intergovernmental revenues	\$ 265,972	\$ -	\$ 5,096	\$ -	\$ 271,068
Proceeds from sale of asset	-	1,000,000	-	-	1,000,000
Other revenues	204	1,347	60	56	1,667
	<u>266,176</u>	<u>1,001,347</u>	<u>5,156</u>	<u>56</u>	<u>1,272,735</u>
Total Revenues					
<b>Expenditures</b>					
General administrative	-	30,873	-	-	30,873
Public works	251,350	-	-	-	251,350
Tourism	-	-	-	6	6
	<u>251,350</u>	<u>30,873</u>	<u>-</u>	<u>6</u>	<u>282,229</u>
Total expenditures					
Excess revenues over (under) expenditures before other sources (uses)	<u>14,826</u>	<u>970,474</u>	<u>5,156</u>	<u>50</u>	<u>990,506</u>
<b>Other financing sources</b>					
Transfers from (to) other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
Excess revenues and other sources over (under) expenditures	<u>14,826</u>	<u>970,474</u>	<u>5,156</u>	<u>(9,950)</u>	<u>980,506</u>
Fund balances July 1, 2020	<u>293,167</u>	<u>144,967</u>	<u>85,947</u>	<u>78,098</u>	<u>602,179</u>
<b>Fund balances June 30, 2021</b>	<u><u>\$ 307,993</u></u>	<u><u>\$ 1,115,441</u></u>	<u><u>\$ 91,103</u></u>	<u><u>\$ 68,148</u></u>	<u><u>\$ 1,582,685</u></u>

**City of Berea, Kentucky**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2021**

<b>Federal Grantor Program Title</b>	<b>Assistance Listing Number</b>	<b>Pass Through Contract Number</b>	<b>Federal Expenditures</b>
<b>United States Department of Justice</b>			
Public Safety Partnership and Community Policing Grants	16.710	n/a	\$ 42,166
VOCA Victim Assistance Formula Grant (see note 4)	16.575	VOCA-2019-Berea PD-00029	<u>53,597</u>
Total Department of Justice			95,763
<b>United States Department of Agriculture</b>			
Rural Business Development Grant	10.351	n/a	44,394
Natural Resources Conservation Service	10.916	n/a	<u>285,398</u>
Total Department of Agriculture			329,792
<b>Federal Highway Administration</b>			
Federal-aid Highway Program (see note 6)	20.205	PO2-625-1500002643	4,015
<b>United States Department of Housing &amp; Urban Development</b>			
Community Development Block Grant/State's Program	14.228	n/a	283,156
KY Emergency Solutions Grant Cares Act	14.231	CV-ES20-1043-01	<u>30,000</u>
Total Department of Housing & Urban Development			313,156
<b>United States Department of Treasury</b>			
COVID-19 Relief Funds (see note 5)	21.019	none	356,213
COVID-19 Relief Funds (see note 5)	21.019	none	<u>360,816</u>
Total Department of the Treasury			717,029
<b>United States Department of Homeland Security</b>			
Federal Emergency Management	97.036	n/a	13,173
<b>Total expenditures of federal awards</b>			<u><u>\$ 1,472,928</u></u>

Note 1: Basis of Presentation

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

Note 2: Indirect Cost Rates

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

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

Note 4: Pass Through Grantor - KY Justice & Public Safety Cabinet

Note 5: Pass Through Grantor - KY Dept of Local Government

Note 6: Pass Through Grantor - Commonwealth of Kentucky, Transportation Cabinet

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor and City Council  
City of Berea, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Berea, Kentucky, as of and for the year ended June 30, 2021, 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 15, 2021.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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 15, 2021

## **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

To the Mayor and City Council  
City of Berea, Kentucky

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

#### ***Opinion on Each Major Federal Program***

We have audited City of Berea, Kentucky's (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended June 30, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the 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, 2021.

#### ***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 15, 2021



City of Berea, Kentucky  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2021

**A. Summary of Auditors' Results**

Financial Statements:

1. The auditors' report expresses an unmodified opinion on whether the City of Berea, Kentucky's financial statements were prepared in accordance with GAAP.
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>Assistance Listing Number</u>
Coronavirus Relief Funds	21.019
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