REPORT OF THE AUDIT OF THE KENTUCKY ARTISAN CENTER AT BEREA

For The Fiscal Year Ended June 30, 2018

MIKE HARMON
AUDITOR OF PULIC ACCOUNTS
www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Todd Finely, Executive Director
Kentucky Artisan Center at Berea
Board of Directors

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Artisan Center at Berea (Center), a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

209 St. Clair Street
Frankfort, KY 40601-1817

Telephone 502.564.5841
Facsimile 502.564.2912
www.auditor.ky.gov

Todd Finley, Executive Director
Kentucky Artisan Center at Berea
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the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2018, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 2, the financial statements present only the Center, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 10 to the financial statements, in 2018 the Center adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 12, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Proportionate Share of the Net OPEB Liability and the Schedule of Contributions on pages 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Todd Finley, Executive Director
Kentucky Artisan Center at Berea
Board of Directors

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018 on our consideration of the Center's internal control over financial reporting and on our test 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 the Center's 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 the Center's internal control over financial reporting and compliance.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Management's discussion and analysis of the financial performance of the Kentucky Artisan Center at Berea (Center) provides an overview of the financial activities of the Center for the year ended June 30, 2018, and should be read in conjunction with the financial statements, which begin on page 15.

The Center was created as an economic development initiative to encourage educational and cultural activities, public gatherings, cultural heritage tourism, and retail sales of Kentucky artisan arts and crafts. The operations of the Center began in July of 2003. The Center displays and sells work by over 750 vendors living and working in over 100 counties of Kentucky. Since the closing of rest areas north of the Center in 2006, the Center has also served as the only mid-state rest area / traveler information center on I-75.

The Center is accounted for as an enterprise fund, reporting on all the activities, assets and liabilities using the accrual basis of accounting much like a private business activity. The Commonwealth of Kentucky provides significant operating support to the Center creating a financial benefit/burden relationship. The Center is included in the Commonwealth of Kentucky's Comprehensive Annual Financial Report as a discretely presented component unit. This annual report consists of a series of financial statements, along with explanatory notes to the financial statements and supplemental schedules.

Financial Highlights

During fiscal year 2018 charges for services or revenues generated by the Center totaled $1,628,302 a decrease of $109,668 from fiscal year 2017. The Center's revenues continue to be impacted by consumer confidence and the general economy.

- During FY 2018, the Center hosted 244,551 visitors, down 12,457 from FY 2017. The decrease is mainly believed to be a result of ongoing construction traffic just south of the Center on I-75. This construction has decreased the number of motor coaches and tour groups, as well as other travelers along I-75 as many have planned alternate routes around the construction. As in FY 2017 the Center maintained 9am-6pm daily hours all year long.

- The Center continues to cross train employees to handle unanticipated needs including buses and other business with its reduced staff.

- The Center continues to experience significant return visitors, both individual traffic and business. I-75 travel guide publisher Dave Hunter continues to promote the Center as having the "cleanest and best designed rest rooms on I-75."

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Continued)

Overview of Financial Statements

The Statement of Net Position presents information on all of the Center's assets, liabilities, deferred inflows and deferred outflows with the difference reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present information showing how the Center's net position changed during the 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 the statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows presents the receipts and usage of cash and cash equivalents. Only transactions that affect the Center's cash account typically are reported in the Statement of Cash Flows.

The notes to the financial statements provide additional information that is essential to fully understanding the data provided in the statements. The notes to the financial statements can be found on pages 21 through 40.

Financial Analysis

For the fiscal year ended June 30, 2018, assets and deferred outflows exceeded liabilities and deferred inflows by $2,744,686.

- Total Assets
  Total assets consist primarily of cash and cash equivalents, investments, inventories, and capital assets.

- Capital Assets
  As a newly opened facility in FY 2004, the Center's investment in capital assets was substantial. Funding for the purchase of significant capital assets was provided by the Commonwealth of Kentucky, as part of the biennial budget, appropriated by the legislature in 1998 and 2000. Capital assets include: buildings, kitchen equipment, maintenance equipment, decorative window panels, furnishings, retail fixtures, and data processing equipment.

  Capital assets net of accumulated depreciation amount to $6,757,185. See Note 4 for additional information related to capital assets.

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Continued)

Financial Analysis (Continued)

- Total Liabilities

  Liabilities totaled $5,522,254 include accounts payable, pension liability, other post-retirement benefits (OPEB) and compensated absences. The net pension liability of $4,485,628 comprises 81% of all liabilities while OPEB comprises 15% or $849,649 of total liabilities. Resulting in retirement obligations of $5,335,277 or 96.6% percent of total liabilities. Together the net pension liability and net OPEB liability represents the Center's proportionate share of the related Kentucky Employees Retirement System Non-Hazardous Plan's collective liability The liability represents the actuarial present value of projected benefit payments for employee services rendered through June 30, 2017. This is a long term liability which will be paid over the retirees' life time.

Table 1 below presents the Center's condensed Statement of Net Position as of June 30, 2018, and June 30, 2017, derived from the Statements of Net Position for the respective years. Some prior year amounts have been restated due to the implementation of GASB 75.

Table 1
Condensed Statement of Net Position
As of June 30

	2018	2017	Percentage Increase (Decrease)
Current Assets	$ 765,068	$ 676,420	13.11%
Capital Assets - net	6,757,185	6,887,859	-1.90%
Total Assets	7,522,253	7,564,279	-0.56%
Deferred Outflows of Resources	1,001,990	648,736	54.45%
Current Liabilities	171,311	157,407	8.83%
Non-Current Liabilities	5,350,943	4,821,334	10.98%
Total Liabilities	5,522,254	4,978,741	10.92%
Deferred Inflows of Resources	257,303	4,584	5513.07%
Invested in Capital Assets			
Net of Related Debt	6,757,185	6,887,860	-1.90%
Unrestricted	(4,012,499)	(3,658,170)	9.69%
Total Net Position	$ 2,744,686	$ 3,229,690	-15.02%

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Continued)

Operating and Non-operating Revenues

- Retail sales of artisan products totaled $1,302,770 during FY 2018, down $101,975 from FY 2017.
- Café receipts for FY 2018 were $293,983, down $33,987 from FY 2017.
- Miscellaneous FY 2018 revenue was $1,780 and included primarily fees from room rentals.
- The Center's retail and café operations collect state and local tax and the Center transfers those funds to the Kentucky Revenue Cabinet and the City of Berea monthly by debiting its restricted revenue account. During FY 2018 a total of $81,923 in Kentucky Sales Taxes was collected and transferred to the Kentucky Revenue Cabinet and $8,051 was collected and paid to the City of Berea.
- To support operations in FY 2018, the Center had available road funds, general funds, restricted revenues generated during the year, and carry-forward restricted funds from previous years. To date no maintenance pool has been provided, so all facility and grounds upkeep must be covered with operating funds

Operating Expenses

The majority of operating expense is attributable to personnel and retirement costs ($1,257,712 or 51.9 %) and costs of sales ($808,384 or 33.4%) of which $688,361 was for retail goods and $120,023 was for café food). Utilities were $85,105, down by $5,905 (or 6.5%) in FY 2018 as a result of increased effort to reduce cost by consciousness of use and repairs and/or maintenance that increased energy efficiency. Repairs and maintenance increased by $6,632 as there were more HVAC repairs and repairs to aging kitchen equipment and other building defects.

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Continued)

Tables 2 and 3 below present the Center's condensed Statement of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2018, and June 30, 2017. Some prior year amounts have been restated due to the implementation of GASB 75.

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30

	2018	2017	Percentage Increase (Decrease)
Operating Revenues:			
Charges for services	$ 1,628,302	$ 1,737,970	-6.31%
Operating grants	837,900	834,800	0.37%
Total Operating Revenues	2,466,202	2,572,770	-4.14%
Total Operating Expenses	2,951,205	2,761,099	6.89%
Change in Net Position	(485,003)	(188,329)	157.53%
Net Position, beginning of year (as restated)	3,229,690	3,418,019	-5.51%
Net Position, end of year	$ 2,744,686	$ 3,229,690	-15.02%

KENTUCKY ARTISAN CENTER at BEREA
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018
(Continued)

Table 3
Condensed Financial Information
Operating Expenses
For the Years Ended June 30

	2018	2017	Percentage Increase (Decrease)
Operating Expenses:			
Personnel services	$ 980,365	$ 948,400	3.37%
Cost of goods sold	767,897	806,198	-4.75%
Pension expense	596,328	492,774	21.01%
OPEB expense	84,286		
Depreciation expense	130,674	124,444	5.01%
Utilities and other services	91,054	91,010	0.05%
Telecommunications & computer services	66,968	64,259	4.22%
Supplies	61,062	72,140	-15.36%
Repairs and maintenance	38,146	31,565	20.85%
Advertising and promotions	17,824	28,546	-37.56%
Banking and financial services	34,848	33,795	3.12%
Professional fees	39,111	35,744	9.42%
Rentals	11,859	11,756	0.88%
Other general expenses	24,275	16,139	50.41%
Postage	1,445	1,487	-2.82%
Travel	5,063	2,842	78.15%
Total Operating Expenses	$ 2,951,206	$ 2,761,099	6.89%

Economic Factors

In FY 2018, the Center received funds from general fund, capital projects fund and the road fund. Operating expenses have continued to be closely monitored by the Center in order to maximize operating profits.

The Center has made no capital construction budget requests for the near future, but is included in a Tourism, Arts, and Heritage Cabinet request for a maintenance pool for several agencies. At present, all maintenance for facility repairs is being charged to the Center's operating budget.

Requests for Information

This financial report is designed to provide the public and other interested parties with an overview of the financial results of the Center's activities and to show the Center's accountability for the revenue that it generates. If you have any questions about this report or need additional financial information, contact the Tourism, Arts, and Heritage Cabinet.

FINANCIAL STATEMENTS

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF NET POSITION
June 30, 2018

Assets		
Current Assets:		
Cash and cash equivalents (Note 2, Note 3)	$	66,009
Investments (Note 2, Note 3)		311,170
Accounts receivable (net)		9,777
Inventories		378,112
Total Current Assets		765,068
Non-Current Assets:		
Capital assets (Note 4):		
Land		1,166,778
Building		6,706,472
Equipment		602,996
Fixtures		359,504
Less: Accumulated depreciation		(2,078,565)
Total Capital assets		6,757,185
Total Non-Current Assets		6,757,185
Total Assets		7,522,253
Deferred Outflows of Resources		1,001,990
Liabilities		
Current Liabilities:		
Accounts payable (Note 5)		99,637
Compensated absences (Note 6)		71,674
Total Current Liabilities		171,311
Non-Current Liabilities:		
Compensated absences (Note 6)		15,666
Net pension liability (Note 7)		4,485,628
Net OPEB liability (Note 7)		849,649
Total Non-Current Liabilities		5,350,943
Total Liabilities		5,522,254
Deferred Inflows of Resources		257,303
Net Position		
Invested in Capital Assets, net of related debt		6,757,185
Unrestricted		(4,012,498)
Total Net Position	$	2,744,687

The accompanying notes are an integral part of the financial statements

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For The Year Ended June 30, 2018

Operating Revenues:	
Charges for sales and services	$ 1,628,302
Operating grants	837,900
Total Operating Revenues	2,466,202
Operating Expenses:	
Personnel services	980,365
Cost of goods sold	767,897
Pension expense	596,328
OPEB expense	84,286
Depreciation expense	130,674
Utilities and other services	91,054
Telecommunications & computer services	66,968
Supplies	61,062
Repairs and maintenance	38,146
Advertising and promotion	17,824
Banking & financial services	34,848
Professional fees	39,111
Rentals	11,859
Other general expenses	24,275
Postage	1,445
Travel	5,063
Total Operating Expenses	2,951,205
Change in Net Position	(485,003)
Net Position at July 1, 2017 (as restated)	3,229,690
Net Position at June 30, 2018	$ 2,744,687

KENTUCKY ARTISAN CENTER at BEREA
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2018

Cash flows from operating activities:		
Cash received from customers	$	1,622,911
Cash received from operating grants		837,900
Cash payments to suppliers for goods and services		(1,198,315)
Cash payments for personnel services		(1,218,186)
Net cash provided by (used in) operating activities		44,311
Cash flows from investing activities:		
Purchase of investment securities		(15,367)
Net cash provided by (used in) investment activities		(15,367)
Net increase (decrease) in cash and cash equivalents		28,944
Cash and Cash Equivalents, July 1, 2017		37,065
Cash and Cash Equivalents, June 30, 2018	$	66,009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$	(485,003)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation		130,674
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase) decrease in assets:		
Net receivables		(3,851)
Inventories		(40,487)
(Increase) decrease in deferred outflows of resources		(353,254)
Increase (decrease) in liabilities:		
Accounts payable		7,665
Pension liability		394,470
OPEB liability		130,548
ST Compensated absences		6,239
LT Compensated absences		4,591
Increase (decrease) in deferred inflows of resources		252,719
Net cash provided by operating activities	$	44,311

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

Note 1 - Organization

The Kentucky Artisan Center at Berea (Center) was created during the Governor Paul E. Patton administration as an economic development initiative. Executive Order 99-331 established the Center for the purpose of hosting various educational exhibitions, public gatherings, cultural activities, generating retail sales of arts and crafts, and hosting other cultural activities for the state of Kentucky. The Center is designed to be an economic generator both on site through sales and throughout the state through referrals and information provided. Products sold are all made in Kentucky, and include crafts, arts, specialty foods, music recordings, videotapes, and books. The Center also maintains and operates the Café, located within the facility.

The Center is a state authority that was originally administratively attached to the Tourism Development Cabinet, and is now attached to the Tourism, Arts & Heritage Cabinet.

The funds for construction of the site were appropriated by the Kentucky legislature in 1998 and 2000. The development of the Center and the oversight of its activity is provided by a 13-member board of directors, the Kentucky Artisan Center at Berea Authority Board, and assisted by numerous partnerships among cabinets within state government, with city and county government, with colleges, with other organizations and agencies, and with individuals interested in the Center's mission and goals.

Note 2 - Summary of Significant Accounting Policies

Reporting Entity

In accordance with the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus,* the Center has adopted the provisions under which the financial statements include all the organizations, activities, functions, and component units for which the Center is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center. The Center has determined that no outside agency meets the above criteria, and therefore, no other agency has been included as a component unit in the Center's financial statements.

However, the Commonwealth of Kentucky provides significant operating support to the Center creating a financial benefit/burden relationship with the Commonwealth. Therefore, the Commonwealth includes the Center in its Comprehensive Annual Financial Report as a discretely presented component unit. The accompanying financial statements are not intended to present the financial position or the results of operations and cash flows of the Commonwealth of Kentucky or its proprietary funds, and therefore, the Commonwealth is not included in this report.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation and Accounting

The Center's financial statements are prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Center are discussed below.

The financial statements of the Center have been presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Accordingly, revenues are recognized when they are earned and become measurable, and expenses are recognized at the time liabilities are incurred.

The Center follows the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures*, Statement No.68 Accounting and Financial Reporting for Pensions, and Statement No.72, *Fair Value Measurement and Application;* Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*.

The accompanying Statement of Revenues, Expenses, and Changes in Net Position reports revenues and expenses as either operating or non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the ongoing operations. The principal operating revenues of the Center are charges to customers for sales of Kentucky made products, as well as income derived from Café operations. Operating expenses include the cost of sales and services, selling and administrative expenses, marketing expenses and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities to disclose contingent assets and liabilities at the date of the financial statements and to disclose the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Center currently uses a commercial bank for depositing funds received from daily activity. These funds are then electronically transferred to the Commonwealth of Kentucky's depository

For financial statement purposes, the Center considers all highly liquid investments with maturity of three months or less to be cash equivalents.

Investments

The Center participates in the Commonwealth of Kentucky's investment pool, which holds investments both for its own benefit and as an agent for other related parties. Investments are valued at their fair values in the Statement of Net Position. Unrealized gains and losses are included in the change in net position in the accompanying Statement of Revenues, Expenses, and Changes in Net Position.

Inventories

Inventories primarily consist of merchandise and food for resale and include Kentucky artisan crafts, arts, specialty foods, music recordings, videotapes, and books. Retail merchandise inventories are valued at average cost as of June 30, 2018, after the close of business. Average cost for all items is updated continuously by the Center's point of sale software. Café food inventory is valued at cost.

Capital Assets

Capital assets, which include property, plant and equipment, are carried at cost less accumulated depreciation. The Center capitalizes capital assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. All land and infrastructure is capitalized. Buildings and equipment are capitalized when the acquisition cost is $5,000 or greater.

Depreciation on capital assets is computed using the straight-line depreciation method over the estimated useful lives of the assets. The following table summarizes the estimated useful lives used in computing depreciation:

Asset	Useful Life
Buildings and Improvements	10 - 75 years
Machinery and Equipment	3 - 25 years
Furniture and Fixtures	3 - 25 years

Depreciation expense for the fiscal year ended June 30, 2018, was $130,674.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Pensions and OPEB

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are included. Information about the fiduciary net position of the Kentucky Retirement System (KRS) and addition to/deductions from KRS's fiduciary net position have been determined on the same basis as they are reported by KRS (See Note 7 and Note 8).

Note 3 - Cash, Cash Equivalents, and Investments

The Center participates in the Commonwealth's cash and investment pool, which is available for use by all funds and component units under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. Therefore, it follows the Commonwealth's policies for all pooled cash and investments. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. As of June 30, 2018, the carrying value of the Center's pooled cash, cash equivalents totaled $66,009, and the fair value of the Center's investments was $311,170. Please refer to the Commonwealth's CAFR for information and disclosure.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,166,778	$	$	$ 1,166,778
Total non-depreciable capital assets	1,166,778			1,166,778
Capital assets being depreciated:				
Building	6,706,472			6,706,472
Equipment	602,996			602,996
Fixtures	359,504			359,504
Total capital assets being depreciated	7,668,972			7,668,972
Less accumulated depreciation for:				
Building	(1,296,925)	(95,150)		(1,392,075)
Equipment	(351,857)	(23,554)		(375,411)
Fixtures	(299,109)	(11,970)		(311,079)
Total accumulated depreciation	(1,947,891)	(130,674)		(2,078,565)
Net capital assets	$ 6,887,859	$ (130,674)	$	$ 6,757,185

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 5 - Disaggregation of Accounts Payable

Accounts payable are amounts owed by the Center as of June 30, 2018. The liabilities will be paid within one year and are therefore considered current. The following table shows the disaggregation of the amounts reported as accounts payable for as of June 30, 2018:

Current Payables		
Personnel services	$	77,750
Other		11,916
Sales tax		7,521
Supplies		2,450
Total Current Payables	$	99,637

Note 6 - Compensated Absences

The Center follows the policy of the Commonwealth of Kentucky to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15 hours per month, determined by the length of service, with maximum accumulations ranging from 30 to 60 days. The estimated liability and change in the estimated liability for compensated absences from the Center as of June 30, 2018, are:

	Beginning Balance	Additions	Reductions	Ending	Due Within One Year
Annual Leave	$ 49,109	$ 33,934	$ 25,996	$ 57,047	$ 46,815
Compensatory Leave	27,401	39,860	36,968	30,293	24,859
Total	$ 76,510	$ 73,794	$ 62,964	$ 87,340	$ 71,674

It is the policy of the Kentucky Artisan Center at Berea to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. There is no liability recorded for sick leave at June 30, 2018. The estimated accumulated unused sick leave for the Center employees at June 30, 2018, was $72,699.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan

Plan Description

All full time employees of the Center who work more than 100 hours per month participate in a multiple-employer cost-sharing defined benefit pension plan. The Kentucky Employees Retirement System (KERS) Non-Hazardous Plan is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). The plan provides retirement, health, disability, and death benefits to plan participants. Cost-of-living adjustments are provided at the discretion of the State Legislature. Employees contribute 5% of creditable compensation. The Board of Trustees determines employer contribution rates necessary for the actuarial soundness of the retirement system as required by Kentucky Revised Statutes 61.565 and 61.702. The employer contribution is subject to approval by the Kentucky General Assembly through the adoption of the Biennial Executive Branch Budget. During FY 2018, the actuarially required employer contribution was 38.93% of covered payroll. The Commonwealth’s actual contribution was 40.24% of covered payroll. At June 30, 2018, the Center reported a liability of $4,485,628 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2016, (and was carried forward to the current measurement date June 30, 2017 using standard roll forward procedures). The total pension liability was determined by an actuarial valuation as of the same date. The Center’s proportionate share is .033504% at June 30, 2018. This percentage is based on the long-term share of contributions of the Center to the total of all contributions from employers of qualifying participants.

Kentucky Revised Statutes 61.510 through 61.705 establishes and governs the plan. KERS issues a publicly available financial report that can be obtained at kyret.ky.gov.

The net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, have been determined on the same basis as they are reported by the Kentucky Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the Kentucky Retirement Systems. For this purpose, the Center recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

Plan Description (Continued)

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	For Tier 1 members, final compensation, or salary average, is determined by dividing the total salary earned(5-High or 3-High) by the total months worked and then multiplyign by twelve to annualize. The fiscal years do not have to be consecutive.	At least 60 months. May include partial fiscal years. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

Actuarial Valuation

State Contribution	40.24%
Member Contribution	5.00%
Actuarial Valuation Date	June 30, 2016 with roll-forward from the valuation date to the plan's fiscal year 2017 (measurement date) using generally accepted actuarial principles
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar
Asset Valuation Method	Five-year smoothed market
Investment Rate of Return	5.25%, this rate consist of 2.3% inflationary component and a 2.95% real rate of return component.
Inflation Rate	2.30%
Payroll Growth	0.00%
Project Salary Increases	Between 12.5% (if years of sevice 0) - .5% (years of service 10 years and over.)
Mortality Tables	Pre-retirement mortality; RP-2000 Combined Mortality Table projected with Scale BB to 2013. Male mortality rates are multiplied by 50% and females are multiplied by 30%. Post-retirement mortality (non-disabled) : RP-2000 Combined Mortality Table projected with scale BB to 2013. Female mortality rates are set back one year. Post-retirment mortality (disabled): RP-2000Combined Disablity Mortality Table projected with Scale BB to 2013. Male mortality rates are set back four years.
Experience Study	July 1, 2008-June 30, 2013

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

Actuarial Valuation (Continued)

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described below:

- The amortization method was changed to level dollar from level percent closed
- The assumed investment rate of return was decreased from 6.75% to 5.25%
- The assumed rate of inflation decreased from 3.25% to 2.3%

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Kentucky Retirement Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

Actuarial Valuation (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	5.97%
International Equity	17.50%	7.85%
Global Bonds	4.00%	2.63%
Global Credit	2.00%	3.63%
High Yield	7.00%	5.75%
Emerging Market Debt	5.00%	5.50%
Private Credit	10.00%	8.75%
Real Estate	5.00%	7.63%
Absolute Return	10.00%	5.63%
Real Return	10.00%	6.13%
Private Equity	10.00%	8.25%
Cash	2.00%	1.88%
Total	100.00%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

The actuarial valuation date is June 30, 2016 upon which the total pension liability is based. The pension liability was determined using standard roll forward techniques. The roll forward calculation adds the annual normal cost, subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. The pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of current plan members. A municipal bond rate was not used. For projected future benefits; see prior year data.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

Actuarial Valuation (Continued)

The following presents the net pension liability of the Center, calculated using the discount rate of 5.25%, as well as what the Center's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.25%) or one percentage point higher (6.25%) :

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
$ 5,121,570	$ 4,485,628	$ 3,956,874

Deferred Inflows/Outflows of Resources

For the year ended June 30, 2018, the Center recognized pension expenses of $596,328 and deferred outflows and deferred inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 798	$ 28,885
Changes in assumptions	569,110	
Net difference between projected and actual earnings on investments	56,059	34,367
Change in proportionate share	11,201	175,768
Contributions subsequent to the measurement date	203,890	
Total	$ 841,058	$ 239,020

The $203,890 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as shown below.

	Amortization of Deferred Inflows / Deferred Outflows
2019	$ 265,637
2020	132,603
2021	6,084
2022	(6,176)

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 7 - Retirement Plan and Employee Benefit Plan (Continued)

KERS Non-Hazardous Membership

	2017 KERS Non-Hazardous
Retirees and beneficiaries receiving benefits	40,813
Inactive plan members	44,848
Active plan members	36,725
Total	122,386

Pension Plan Fiduciary Net Position

The Center's fiduciary net position has been determined on the same basis used by KRS. KRS' combining financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. See Note D of KRS' annual financial report previously referenced for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits

Plan Description and Covered Employees

The Kentucky Employees Retirement System (KERS) Non-Hazardous Plan is administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). It is a cost-sharing OPEB plan. Contribution rates for employer and employees are established by Kentucky Statutes. Members participating prior to September 2008 do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and prorated allocation of investment returns. Members participating on or after September 2008 contribute 1% of their official salary. Employer contribution rates are actuarially determined and established in the Budget Bill. At June 30, 2018, the Center reported a liability of $849,649 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation as of the same date. The Center’s proportionate share is .033504% at June 30, 2017. This percentage is based on the long-term share of contributions of the Center to the total of all contributions from employers of qualifying participants.

Plan Administrator: The plan is administered by Kentucky Retirement Systems.

	Participation prior to July 2003		Participation between July 2003 and August 2008		Participation on or after September 2008	
	Months of Service	Percent of premium paid	Months of Service	Percent of premium paid	Months of Service	Percent of premium paid
Benefit Factor:	<48	0%	Greater than or equal to 120	$10 per month for each year of service without regard to a maximum dollar amount adjusted annually	Greater than or equal to 180	$10 per month for each year of service without regard to a maximum dollar amount adjusted by 1.5% annually
	48 to 119 inclusive	25%				
	120 to 179 inclusive	50%				
	180 to 239 inclusive	75%				
	240 or more	100%				
Contribution Rate:	Contribution rates for the employer is actuarially determined. No member contribution.		Contribution rates for the employer is actuarially determined. No member contribution.		Contribution rates for the employers are actuarially determined. Member contribution of 1% of salary.	

Cost of Living Adjustment (COLA): Members participating after 2008 receive 1.5% increase annually

Publicly available financial reports for the Kentucky Retirement Systems can be accessed at https://kyret.ky.gov

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits (Continued)

Actuarial Valuation

Employer Contribution	8.35%
Member Contribution	Participation prior to 9/1/2008 make no contribution. Participation on or after 9/1/2008 contribute 1%
Contributions made in thousands	$ 43
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Valuation Date	June 30, 2016 with standard roll-forward procedures to June 30, 2017
Inflation	2.3% for fiscal year 2017. A reduction from the prior years rate of 3.25%. This reduction resulted in a 0.95% decrease in salary
Salary Increases	12.5% currently, decreasing in one year to 4.5% , year two is 2.0%. An average of 1.1% thereafter.
Payroll growth	0% for Fiscal year 2017. Prior year 2016 4.00%.
Assumed Investment Return	6.25% for fiscal year 2017. Prior year was 7.50%
Health cost trend rates	Underlying assumptions: 1). A short run period-this is a period for which anticipated health care trend rates are manually set based on local information as well as plan-specific and carrier information. 2). Long term real GDP Growth- 1.75%. 3). Long term rate of inflation- 2.3%. 4). Long term nominal GDP growth- 4.05%. 5). Year that excess rate converges to 0-15 years from the valuation. Health Care Cost Trends are thus the manually set rates for the short run period and rates which decline to an ultimate trend rate which equals the assumed nominal long term GDP growth rate.
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Mortality Tables	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 non-disabled retired members the mortality table used 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
Update procedures applied	The actuarial valuation date of June30, 2016 was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017 using standard roll forward procedures . The prior actuary's valuations was replicated using the same assumptions, methods, and data as of that date, June 30, 2016.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits (Continued)

Actuarial Valuation (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis was dated December 3, 2015. The long-term expected rate of return was determined using a building block method in which the 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 rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
Total	100.00%	

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits (Continued)

Actuarial Valuation (Continued)

The discount used to measure the total OPEB liability was 5.83%. 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 3.56% as reported in Fidelity Index's "20-Year Municipal Go AA Index" as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate. The employer contribution will be made at the actuarially determined contribution rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of 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 the subsidy will not be paid out of the System's trust. The following table presents the net OPEB liability calculated using a discount as well as what the liability would be if it was using a discount rate that is 1% point lower (4.83%) or 1% point higher (6.83%) than the current rate:

	1% Decrease 4.83%	Current Discount Rate 5.83%	1% Increase 6.83%
Net OPEB Liability	$ 993,342	$ 849,649	$ 730,231

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits (Continued)

Actuarial Valuation (Continued)

The following table presents the new OPEB liability of the KRS OPEB Plan calculated using the healthcare cost trend rate that is 1% point lower and 1% point higher than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 721,926	$ 849,649	$ 1,010,027

Healthcare Trend Rates (Pre-65): Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of five years.

Health Trend Rates (Post-65): Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of two years.

Deferred Inflows/Outflows of Resources

For the year ended June 30, 2018, the Artisan Center recognized OPEB expenses of $84,286. Deferred outflows and deferred inflows related to OPEB are from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$ 1,051
Changes in assumptions	111,245	
Net difference between projected and actual earnings on investments		10,997
Change in Proportionate share		6,235
Contributions subsequent to the measurement date	49,687	
Total	$ 160,932	$ 18,283

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 8 - Other Postemployment Benefits (Continued)

Deferred Inflows/Outflows of Resources (Continued)

The $43,072 reported as deferred outflows of resources related to OPEB resulting from contributions after the measurement date will be recognized as a reduction of net OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized as OPEB expense as follows:

Year ended June 30:	Amortization
2019	$ 23,175
2020	23,175
2021	23,175
2022	23,175
2023	262
Thereafter	

Membership Information

2017 KERS Non-Hazardous	
Retirees and beneficiaries receiving benefits	28,612
Inactive members	6,362
Active members	37,623
Total	72,597

Note 9 - Related Parties

On occasion, board members or their organizations, colleges, or governmental units will use the Center's private dining and conference rooms at no charge. In addition, by statute, two members of the Authority Board are on the staff of Berea College, and the Center purchases items for resale from Berea College's Crafts Program. The College regularly sells work wholesale to other retailers.

KENTUCKY ARTISAN CENTER at BEREA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018
(Continued)

Note 10 - GASB 75 Restatement

For the fiscal year ended June 30, 2018, the Center implemented the new accounting standard issued by the Governmental Accounting Standards Board (GASB): GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

This Statement requires changes in the presentation of the financial statements, notes to the financial statements, and required supplementary information for Other Postemployment Benefit (OPEB) plans. It also requires more comprehensive footnote disclosure regarding the net OPEB liability, the sensitivity of the net OPEB liability to the discount rate, and healthcare cost trend rates. The total OPEB liability, determined in accordance with GASB Statement 75, is presented in Note 8.

As a result of implementing this Statement, the beginning net position for Fiscal year 2018 was reduced by $672,401. The beginning Net Position for the comparative fiscal year 2017 was reduced by $719,401. It was not practicable to disclose the OPEB expense for fiscal year 2017 on the Statement of Revenues, Expenses, and Changes in Net Position. Therefore no comparison for this expense has been made.

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY ARTISAN CENTER at BEREA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Proportionate Share of Net Pension Liability	2018-a	2017-b	2016-c	2015-d
Employer's Portion of the collective Net Pension Liabilty(assets)	0.033500%	0.035889%	0.035604%	0.035735%
Employer's share of the net Pension Liability	$ 4,485,628	$ 4,091,158	$ 3,571,738	$ 3,206,080
Covered Employee Payroll	$ 536,803	$ 585,359	$549,809	563,718
Employers's Proportionate share of the Net Pension Liability as a percentage of Covered Payroll	835.62%	698.92%	649.64%	568.74%
Plan fiduciary net position as a percentage of total pension liability	13.32%	14.80%	18.83%	22.32%

Schedule of Employer's Contributions Pension

	2018	2017	2016	2015
Actuarially required contribution	$ 203,890	$ 208,977	$ 182,531	$ 186,160
Employer Contribution in relation to the actuarial contribution	(210,289)	(253,636)	(184,141)	(186,427)
Contribution deficiency (excess)	$ (6,399)	$ (44,658)	$ (1,610)	$ (267)
Covered-employee payroll	$ 512,149	$ 536,803	$ 585,359	$ 551,832
Contribution as a percentage of Covered Employee Payroll	41.06%	40.24%	31.71%	33.78%

This is a ten year schedule. Years will be added to this schedule in future years until ten years of information is presented.

[a] This column is based on the measurement date of June 30, 2017.
[b] This column is based on the measurement date of June 30, 2016.
[c] This column is based on the measurement date of June 30, 2015.
[d] This column is based on the measurement date of June 30, 2014

KENTUCKY ARTISAN CENTER at BEREA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018
(Continued)

Notes to RSI Pension Contributions

Methods and assumptions used to determine contributions :

Actuarial Cost Method	Entry Age
Valuation date	June 30,2017
Amortization Method	Level percentage of payroll closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment Return	7.50%
Inflation	3.25%
Projected Salary Increase	4.0%, average, including inflation

Mortality for 2018

RP-2000 Combined Mortiality Table, projected to 2013 with Scale BB Set Back one year for females.

Mortality Prior to 2018

The rate of mortality 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 is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

KENTUCKY ARTISAN CENTER at BEREA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018
(Continued)

Schedule of Proportionate Share of the Net OPEB Liability

		2018-a
Proportionate share of the net OPEB liability		0.033504%
Proportionate share of the collective net OPEB liability		849,649
Commonwealth's covered-employee payroll	$	533,751
Commonwealth's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll		159.2%
OPEB plan fiduciary net position as a percentage of the total OPEB liability		24.4%

Schedule of Employer's Contributions OPEB

		2018
Actuarially determined contribution	$	43,072
Contributions in relation to the actuarially determined contribution		43,072
Contribution deficiency (excess)	$	
Covered-employee payroll	$	512,149
Contributions as a percentage of covered-employee payroll		8.41%

This is a ten year schedule. Years will be added to this schedule in future years until ten years of information is presented.

[a] This column is based on the measurement date of June 30, 2017.

KENTUCKY ARTISAN CENTER at BEREA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018
(Continued)

Notes to RSI - OPEB Contributions

Methods and assumptions used to determine OPEB contributions :

Actuarial Cost Method	Entry Age Normal
Valuation date	6/30/2017 with roll forward procedures
Amortization Method	Level Percent of Pay
Amortization Period	28 Year, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Investment Return	7.50%
Inflation	3.25%
Projected Salary Increase	4.0% average

Mortality
PR-2000 Combined Mortaility Table, projected to 2013 with Scale BB (set back 1 year for females)

Health Care Trend Rates:

Pre-65	Initial trend starting at 7.5% and gradually decreasing to an utimate trend of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of two years.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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*

Independent Auditor's Report

Todd Finley, Executive Director
Kentucky Artisan Center at Berea
Board of Directors

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Artisan Center at Berea (Center) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations,

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 9, 2018