

**CITY OF SOMERSET**  
**Somerset, Kentucky**



**FINANCIAL STATEMENTS**  
**June 30, 2017**

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## INDEPENDENT AUDITORS' REPORT

Mayor and the City Council  
City of Somerset  
Somerset, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively, comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3–11 and 41-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Somerset, Kentucky's basic financial statements. The combining nonmajor fund financial statements and proprietary statements of revenues and expenses – budget to actual are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor fund financial statements and proprietary statements of revenues and expenses – budget to actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 information is 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 November 20, 2017, on our consideration of the City of Somerset, 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 the City of Somerset, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
November 20, 2017

## **Management's Discussion and Analysis**

Our discussion and analysis of the City of Somerset, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total assets were \$154.88 million
- Total bank balances was \$19.9 million
- Total long term debt decreased by \$1.60 million
- General fund reported a fund balance of \$3.14 million
- During the year, the City's business type activities generated net revenues of \$4.0 million which was primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$27.3 million in unfunded liability for future pension cost.
- Of the major business components, natural gas, sanitation and water continued to generate adequate revenues compared to expenses.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

## **Management's Discussion and Analysis, Continued**

### **Reporting the City as a Whole**

#### *Government-Wide Financial Statements*

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 the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including the police, fire, emergency medical services, fuel center, water park, cemetery, public works and parks departments, as well as general administration. Property taxes, franchise fees and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's gas, water, wastewater and sanitation departments are reported here.

## **Management's Discussion and Analysis, Continued**

### **Reporting the City's Most Significant Funds**

#### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and proprietary-use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation that follows the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use the internal service fund (the other component of proprietary funds) to report activities of our Utility Billing department that provides services for the City's utilities.

## Management's Discussion and Analysis, Continued

### THE CITY AS A WHOLE

The City's combined net position remained relatively unchanged from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1**  
**Net Position**  
**(in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2017	2016	2017	2016	2017	2016
Current & Other Assets	\$ .72	\$ (.24)	\$ 24.60	\$ 23.65	\$ 25.32	\$ 23.41
Capital Assets	35.94	37.78	87.36	89.14	123.30	126.92
Deferred Outflows	<u>4.73</u>	<u>3.62</u>	<u>1.53</u>	<u>1.21</u>	<u>6.26</u>	<u>4.83</u>
Total Assets and Deferred Outflows	<u>41.39</u>	<u>41.16</u>	<u>113.49</u>	<u>114.00</u>	<u>154.88</u>	<u>155.16</u>
Other Liabilities	2.12	2.55	2.96	2.71	5.08	5.26
Long Term Liabilities	36.08	35.33	35.31	36.06	71.39	71.39
Deferred Inflows	<u>.60</u>	<u>.02</u>	<u>.28</u>	<u>-</u>	<u>.88</u>	<u>.02</u>
Total Liabilities/Deferred Inflows	<u>38.80</u>	<u>37.90</u>	<u>38.55</u>	<u>38.77</u>	<u>77.35</u>	<u>76.67</u>
Net investment in capital assets	19.75	21.06	57.40	58.12	77.15	79.18
Restricted	1.64	.82	.91	3.03	2.55	3.85
Unrestricted	<u>(18.80)</u>	<u>(18.62)</u>	<u>16.63</u>	<u>14.08</u>	<u>(2.17)</u>	<u>(4.54)</u>
Total Net Position	<u>\$ 2.59</u>	<u>\$ 3.26</u>	<u>\$ 74.94</u>	<u>\$ 75.23</u>	<u>\$ 77.53</u>	<u>\$ 78.49</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased by \$2.37 million during fiscal year 2017.

The net position of our business-type activities was relatively unchanged from the prior year.

Total assets and deferred outflows for Governmental Activities increased from \$41.16 million at June 30, 2016 to \$41.39 million at June 30, 2017.



**Management's Discussion and Analysis, Continued**

**Table 2**  
**Change in Net Position**  
**(in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 4.98	\$ 5.96	\$ 24.37	\$ 24.88	\$ 29.35	\$ 30.84
Federal & State Grants	2.41	2.09	-	.04	2.41	2.13
General Revenues						
Property Taxes	1.41	1.43	-	-	1.41	1.43
Other Taxes and License Fees	7.66	7.17	-	-	7.66	7.17
Other General Revenues	<u>.34</u>	<u>.23</u>	<u>.06</u>	<u>.05</u>	<u>.40</u>	<u>.28</u>
Total Revenues	<u>\$ 16.80</u>	<u>\$ 16.88</u>	<u>\$ 24.43</u>	<u>\$ 24.97</u>	<u>\$ 41.23</u>	<u>\$ 41.85</u>
<b>Program Expenses</b>						
General Government	3.86	3.91	-	-	3.86	3.91
Public Safety	6.25	6.24	-	-	6.25	6.24
Public Services	.18	0.13	-	-	.18	.13
Streets	1.59	1.79	-	-	1.59	1.79
Parks and Recreation	1.23	1.19	-	-	1.23	1.19
Emergency Medical Services	4.80	5.45	-	-	4.80	5.45
Cemetery	.10	.08	-	-	.10	.08
Fuel Center	.76	.98	-	-	.76	.98
Waterpark	1.85	1.90	-	-	1.85	1.90
Travel & Tourism	.32	.37	-	-	.32	.37
Intergovernmental Programs	.16	.16	-	-	.16	.16
Downtown Revitalization	.05	.05	-	-	.05	.05
Debt Service – Interest	.55	.36	-	-	.55	.36
Gas	-	-	8.51	9.06	8.51	9.06
Water	-	-	5.30	5.21	5.30	5.21
Wastewater	-	-	3.67	3.53	3.67	3.53
Sanitation	-	-	2.91	2.62	2.91	2.62
Total Expense	<u>\$ 21.70</u>	<u>\$ 22.61</u>	<u>\$ 20.39</u>	<u>\$ 20.42</u>	<u>\$ 42.09</u>	<u>\$ 43.03</u>
Gain (Loss) on disposal of capital assets	(.11)	.02	.01	-	(.10)	.02
Excess (Deficiency) before Transfer	(5.01)	(5.71)	4.05	4.55	(.96)	(1.16)
Transfer	<u>4.34</u>	<u>4.60</u>	<u>(4.34)</u>	<u>(4.60)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(.67)	(1.11)	(.29)	(.05)	(.96)	(1.16)
Net Position, beginning	<u>3.26</u>	<u>4.37</u>	<u>75.23</u>	<u>75.28</u>	<u>78.49</u>	<u>79.65</u>
Net Position, ending	<u>\$ 2.59</u>	<u>\$ 3.26</u>	<u>\$ 74.94</u>	<u>\$ 75.23</u>	<u>\$ 77.53</u>	<u>\$ 78.49</u>

## Management's Discussion and Analysis, Continued

The City's total revenues decreased by \$.62 million. The total cost of all programs and services decreased by \$.94 million. In accordance with GAAP, during 2017 the City began netting bad debt expense against revenue in the EMS Fund. When considering this change in accounting classification during fiscal year 2017, revenues actually increased by \$.53 million and the total cost of all programs and services increased by \$.23 million. Our analysis below separately considers the operations of governmental and business-type activities.

### **Governmental Activities**

The cost of all governmental activities this year was \$21.70 million compared to \$22.61 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2017 from \$5.96 million to \$4.98 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.07 million in taxes and license fees, \$2.41 million in grants and entitlements, \$.34 million of other revenues, and \$4.34 million in transfers.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, streets, waterpark, and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost decreased by \$.28 million and shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Emergency Medical Services	\$ 4.80	\$ 5.45	\$ 0.44	\$ 0.47
Police and Fire Department	6.25	6.24	5.42	5.77
Streets	1.59	1.79	1.34	1.54
Waterpark	1.85	1.90	.77	.69
Parks and recreation	1.23	1.19	1.07	1.04
All Others	5.98	6.04	5.28	5.09
Totals	<u>\$ 21.70</u>	<u>\$ 22.61</u>	<u>\$ 14.32</u>	<u>\$ 14.60</u>

## **Management's Discussion and Analysis, Continued**

### **Business-Type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by \$.54 million (\$24.43 million in 2017 compared to \$24.97 million in 2016) and expenses decreased by \$.03 million (\$20.39 million in 2017 compared to \$20.42 million in 2016). The factors driving these results include:

- The major decrease in revenue for this fiscal year is due to the warmer winter that decreases the consumption and transportation of natural gas. The City continues to monitor revenue and expenses in an effort to be as efficient as possible in all activities.

### **THE CITY'S FUNDS**

As the City completed the year, its general fund (as presented in the balance sheet on page 14) reported a fund balance of \$3.1 million.

#### **General Fund Budgetary Highlights**

Over the course of the year, the City Council amended the City budget due to revenue and expenses that occurred during the year that were unknown at the time of the original budget.

For the General Fund, actual revenues were \$2.27 million more than the \$7.5 million budgeted, while actual expenditures were \$1.16 million less than the expected \$12.98 million budgeted.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of 2017, the City had \$123.30 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water, gas and sewer lines. (See Table 4 below).

**Management's Discussion and Analysis, Continued**

**Table 4**  
**Capital Assets at Year End**  
**(Net of Depreciation, in Millions)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 2.36	\$ 2.22	\$ .90	\$ .90	\$ 3.26	\$ 3.12
Right of Way and Easements	0.01	.01	.14	.14	.15	.15
Construction in Progress	.05	.05	.27	.14	.32	.19
Infrastructure	15.15	16.09	-	-	15.15	16.09
Utility Plant and Distribution System	-	-	47.50	48.40	47.50	48.40
Buildings and Improvements	16.92	17.78	36.96	37.95	53.88	55.73
Vehicles	.95	1.09	0.68	.83	1.63	1.92
Equipment	.47	.49	0.51	.39	.98	.88
Office Equipment	.03	.05	0.38	.38	0.41	.43
Land Improvements	-	-	<u>0.02</u>	<u>.02</u>	<u>0.02</u>	<u>.02</u>
Total	<u>\$ 35.94</u>	<u>\$ 37.78</u>	<u>\$ 87.36</u>	<u>\$ 89.15</u>	<u>\$ 123.30</u>	<u>\$ 126.93</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Bourne Avenue Water Line Replacement Project was completed in the current FY. Several sidewalk projects were completed around various neighborhoods as well.

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

## **Management's Discussion and Analysis, Continued**

### **Debt**

As of June 30, 2017, the City's Governmental Activities long term debt had decreased by \$.52 million and the Business-Type Activities long term debt decreased by \$1.08 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$1.28 million and \$.43 million respectively. Table 5 below contains the details.

**Table 5**  
**Outstanding Debt at Year End**  
**(in Millions)**

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Long-Term Debt	16.19	16.71	30.04	31.12	46.23	47.83
Net Pension Liability	<u>20.42</u>	<u>19.14</u>	<u>6.86</u>	<u>6.43</u>	<u>27.28</u>	<u>25.57</u>
Totals	<u>\$ 36.61</u>	<u>\$ 35.85</u>	<u>\$ 36.90</u>	<u>\$ 37.55</u>	<u>\$ 73.51</u>	<u>\$ 73.40</u>

Insurance costs and retirement contribution percentages continue to have a major impact on the current and all future budgets. The City is continuing to pay for the employee's health coverage and plans are to continue this practice until it becomes unaffordable for the City. The retirement percentages are a major concern for all cities and all cities are lobbying the State for legislation to help in this area.

The City is always looking at changes in bond market interest rates that would make financial sense for the City to refinance when/if rates continue down to a favorable point.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Accounting Department at Somerset City Hall, 306 E. Mt. Vernon Street, Somerset, Kentucky 42501.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2017**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 4,984,553	\$ 5,593,015	\$ 10,577,568
Certificates of deposit	1,006,914	5,641,888	6,648,802
Receivables, net	2,737,825	1,928,509	4,666,334
Accrued interest receivable	680	1,191	1,871
Inventories	129,317	781,789	911,106
Prepaid expenses	142,422	59,124	201,546
Internal balances, net	<u>(9,603,059)</u>	<u>9,603,059</u>	<u>-</u>
Total current assets	<u>(601,348)</u>	<u>23,608,575</u>	<u>23,007,227</u>
Noncurrent assets			
Restricted cash and cash equivalents	1,322,156	895,552	2,217,708
Restricted certificates of deposit	-	18,221	18,221
Excess cost over market value of assets acquired, net	-	78,258	78,258
Capital assets			
Nondepreciable capital assets	2,422,257	1,325,595	3,747,852
Depreciable capital assets, net	<u>33,520,854</u>	<u>86,038,244</u>	<u>119,559,098</u>
Total noncurrent assets	<u>37,265,267</u>	<u>88,355,870</u>	<u>125,621,137</u>
Total assets	<u>36,663,919</u>	<u>111,964,445</u>	<u>148,628,364</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	4,731,800	1,526,806	6,258,606
Defeasance on refunding	<u>-</u>	<u>5,655</u>	<u>5,655</u>
Total assets and deferred outflows of resources	<u>\$ 41,395,719</u>	<u>\$ 113,496,906</u>	<u>\$ 154,892,625</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 324,689	\$ 869,887	\$ 1,194,576
Accrued interest payable	185,001	164,445	349,446
Other current liabilities	1,076,397	337,876	1,414,273
Current portion of long-term debt	<u>534,831</u>	<u>1,591,645</u>	<u>2,126,476</u>
Total current liabilities	<u>2,120,918</u>	<u>2,963,853</u>	<u>5,084,771</u>
Noncurrent liabilities			
Notes payable	-	6,547,712	6,547,712
Bonds payable	15,657,071	21,901,341	37,558,412
Net pension liability	<u>20,422,698</u>	<u>6,857,698</u>	<u>27,280,396</u>
Total noncurrent liabilities	<u>36,079,769</u>	<u>35,306,751</u>	<u>71,386,520</u>
Total liabilities	<u>38,200,687</u>	<u>38,270,604</u>	<u>76,471,291</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	<u>601,438</u>	<u>289,455</u>	<u>890,893</u>
<b>NET POSITION</b>			
Net invested in capital assets	19,751,209	57,401,399	77,152,608
Restricted for			
Debt service	596,867	913,773	1,510,640
Construction	350,289	-	350,289
Other purposes	694,342	-	694,342
Unrestricted	<u>(18,799,113)</u>	<u>16,621,675</u>	<u>(2,177,438)</u>
Total net position	<u>2,593,594</u>	<u>74,936,847</u>	<u>77,530,441</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,395,719</u>	<u>\$ 113,496,906</u>	<u>\$ 154,892,625</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**for the year ended June 30, 2017**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	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	\$ 3,862,298	\$ -	\$ -	\$ -	\$ (3,862,298)	\$ -	\$ (3,862,298)
Public safety	6,251,921	-	457,611	375,000	(5,419,310)	-	(5,419,310)
Public services	184,888	-	-	-	(184,888)	-	(184,888)
Streets	1,591,445	-	250,652	-	(1,340,793)	-	(1,340,793)
Parks and recreation	1,227,937	160,391	-	-	(1,067,546)	-	(1,067,546)
Emergency medical services	4,799,621	3,031,718	1,329,849	-	(438,054)	-	(438,054)
Cemetery	96,048	57,675	-	-	(38,373)	-	(38,373)
Waterpark	1,849,310	1,076,783	-	-	(772,527)	-	(772,527)
Fuel Center	756,176	650,907	-	-	(105,269)	-	(105,269)
Travel and tourism	322,316	-	-	-	(322,316)	-	(322,316)
Intergovernmental programs	163,985	-	-	-	(163,985)	-	(163,985)
Downtown revitalization	45,870	-	-	-	(45,870)	-	(45,870)
Interest on long-term debt	554,958	-	-	-	(554,958)	-	(554,958)
Total governmental activities	21,706,773	4,977,474	2,038,112	375,000	(14,316,187)	-	(14,316,187)
<b>Business-type activities</b>							
Gas Department	8,515,395	10,771,148	-	-	-	2,255,753	2,255,753
Water Department	5,290,595	7,053,228	-	-	-	1,762,633	1,762,633
Wastewater Department	3,674,880	2,877,901	-	-	-	(796,979)	(796,979)
Sanitation Department	2,909,767	3,664,077	-	-	-	754,310	754,310
Total business-type activities	20,390,637	24,366,354	-	-	-	3,975,717	3,975,717
<b>Total primary government</b>	<b>\$ 42,097,410</b>	<b>\$ 29,343,828</b>	<b>\$ 2,038,112</b>	<b>\$ 375,000</b>	<b>(14,316,187)</b>	<b>3,975,717</b>	<b>(10,340,470)</b>
<b>General revenues</b>							
Taxes:							
Property taxes					1,413,922	-	1,413,922
Transient room tax					273,392	-	273,392
License fees:							
Franchise					882,056	-	882,056
Business					318,832	-	318,832
Insurance premiums					1,787,082	-	1,787,082
Occupational					3,710,776	-	3,710,776
ABC					627,785	-	627,785
Permits:							
Building					50,561	-	50,561
Planning & Zoning					3,993	-	3,993
Stormwater					3,000	-	3,000
Investment earnings					33,177	62,289	95,466
Miscellaneous					307,122	-	307,122
Total general revenues					9,411,698	62,289	9,473,987
Gain (loss) on disposal of capital assets					(105,079)	10,580	(94,499)
Transfers in (out)					4,339,508	(4,339,508)	-
<b>Change in Net Position</b>					(670,060)	(290,922)	(960,982)
Net position-beginning					3,263,654	75,227,769	78,491,423
<b>NET POSITION-ENDING</b>					<b>\$ 2,593,594</b>	<b>\$ 74,936,847</b>	<b>\$ 77,530,441</b>

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

**CITY OF SOMERSET, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017**

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents	\$ 5,021,616	\$ 344,572	\$ 202,955	\$ 48,414	\$ -	\$ 689,152	\$ 6,306,709
Certificates of deposit	1,006,914	-	-	-	-	-	1,006,914
Receivables, net	1,524,191	929,958	170,828	25,780	-	87,068	2,737,825
Interest receivable	680	-	-	-	-	-	680
Inventories	10,320	-	35,990	66,064	-	16,943	129,317
Prepaid expenses	77,979	34,118	2,636	461	-	27,228	142,422
Due from other funds	<u>6,020,490</u>	<u>901</u>	<u>-</u>	<u>28,487</u>	<u>-</u>	<u>-</u>	<u>6,049,878</u>
Total assets	<u>\$ 13,662,190</u>	<u>\$ 1,309,549</u>	<u>\$ 412,409</u>	<u>\$ 169,206</u>	<u>\$ -</u>	<u>\$ 820,391</u>	<u>\$ 16,373,745</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 211,789	\$ 22,090	\$ 62,648	\$ 3,494	\$ -	\$ 24,668	\$ 324,689
Due to other funds	9,523,047	1,185,184	4,494,361	1,976	-	448,369	15,652,937
Other current liabilities	<u>787,893</u>	<u>195,840</u>	<u>55,604</u>	<u>2,442</u>	<u>-</u>	<u>34,618</u>	<u>1,076,397</u>
Total liabilities	<u>10,522,729</u>	<u>1,403,114</u>	<u>4,612,613</u>	<u>7,912</u>	<u>-</u>	<u>507,655</u>	<u>17,054,023</u>
<b>Fund balances</b>							
Nonspendable	88,299	34,118	38,626	66,525	-	44,171	271,739
Restricted	1,346,133	-	-	-	-	295,365	1,641,498
Committed	-	-	-	-	-	254,776	254,776
Assigned	194,350	-	-	-	-	-	194,350
Unassigned	<u>1,510,679</u>	<u>(127,683)</u>	<u>(4,238,830)</u>	<u>94,769</u>	<u>-</u>	<u>(281,576)</u>	<u>(3,042,641)</u>
Total fund balances	<u>3,139,461</u>	<u>(93,565)</u>	<u>(4,200,204)</u>	<u>161,294</u>	<u>-</u>	<u>312,736</u>	<u>(680,278)</u>
Total liabilities and fund balances	<u>\$ 13,662,190</u>	<u>\$ 1,309,549</u>	<u>\$ 412,409</u>	<u>\$ 169,206</u>	<u>\$ -</u>	<u>\$ 820,391</u>	<u>\$ 16,373,745</u>

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

Fund balances reported above	\$ (680,278)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	35,943,111
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(185,001)
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	4,130,362
Long-term liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds.	<u>(36,614,600)</u>
Net position of governmental activities	<u>\$ 2,593,594</u>

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



**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**for the year ended June 30, 2017**

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>							
Taxes	\$ 1,413,922	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,413,922
Licenses and permits	7,384,085	-	-	-	-	-	7,384,085
Fines and forfeits	11,300	-	-	-	-	-	11,300
Charges for services	-	3,031,718	1,076,783	650,907	-	218,066	4,977,474
Intergovernmental	832,611	1,329,849	-	-	-	524,044	2,686,504
Interest income	26,269	1,824	1,232	466	-	3,386	33,177
Other revenues	100,220	54,272	31,259	-	-	110,071	295,822
<b>Total revenues</b>	<u>9,768,407</u>	<u>4,417,663</u>	<u>1,109,274</u>	<u>651,373</u>	<u>-</u>	<u>855,567</u>	<u>16,802,284</u>
<b>EXPENDITURES</b>							
Current:							
General administration	3,265,437	-	-	-	-	-	3,265,437
Public safety	5,828,230	-	-	-	-	-	5,828,230
Public services	184,888	-	-	-	-	-	184,888
Streets	900,223	-	-	-	-	97,344	997,567
Parks and recreation	-	-	-	-	-	1,076,520	1,076,520
Emergency medical services	-	4,438,254	-	-	-	-	4,438,254
Cemetery	-	-	-	-	-	89,419	89,419
Waterpark	-	-	1,133,440	-	-	-	1,133,440
Fuel center	-	-	-	721,960	-	-	721,960
Travel and tourism	-	-	-	-	-	320,407	320,407
Downtown revitalization	45,870	-	-	-	-	-	45,870
Intergovernmental programs	153,585	-	-	-	-	-	153,585
Capital outlay	517,247	27,292	-	-	-	133,230	677,769
Debt service	929,803	-	110,584	-	-	-	1,040,387
<b>Total expenditures</b>	<u>11,825,283</u>	<u>4,465,546</u>	<u>1,244,024</u>	<u>721,960</u>	<u>-</u>	<u>1,716,920</u>	<u>19,973,733</u>
Excess (deficiency) of revenues over expenditures	<u>(2,056,876)</u>	<u>(47,883)</u>	<u>(134,750)</u>	<u>(70,587)</u>	<u>-</u>	<u>(861,353)</u>	<u>(3,171,449)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds from sale of assets	259,379	6,361	4,355	-	-	6,577	276,672
Transfers in (out)	3,282,312	(25,000)	348,584	-	(149,288)	882,900	4,339,508
<b>Total other financing sources and uses</b>	<u>3,541,691</u>	<u>(18,639)</u>	<u>352,939</u>	<u>-</u>	<u>(149,288)</u>	<u>889,477</u>	<u>4,616,180</u>
<b>Net change in fund balances</b>	1,484,815	(66,522)	218,189	(70,587)	(149,288)	28,124	1,444,731
Fund balances-beginning	1,654,646	(27,043)	(4,418,393)	231,881	149,288	284,612	(2,125,009)
<b>Fund balances-ending</b>	<u>\$ 3,139,461</u>	<u>\$ (93,565)</u>	<u>\$ (4,200,204)</u>	<u>\$ 161,294</u>	<u>\$ -</u>	<u>\$ 312,736</u>	<u>\$ (680,278)</u>

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ 1,444,731
add: capital outlay expenditures capitalized	677,769
add: debt service expenditures	1,040,387
less: proceeds from sale of assets	(276,672)
gain on disposal of capital assets	(105,079)
less: depreciation on governmental activities assets	(2,133,406)
change in net pension liability	(762,832)
less: interest on long term debt	(554,958)

Change in net position Governmental Activities

\$ (670,060)

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2017**

	Business-type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 2,238,793	\$ 1,997,381	\$ 15,696	\$ 1,186,210	\$ 5,438,080	\$ 154,935
Certificates of deposit	-	1,259,830	3,781,957	600,101	5,641,888	-
Receivables, net	669,591	590,896	301,025	366,997	1,928,509	-
Accrued interest receivable	-	134	833	224	1,191	-
Inventories	359,151	359,965	62,673	-	781,789	-
Prepaid expenses	16,333	17,528	12,918	12,345	59,124	-
Due from other funds	<u>3,611,004</u>	<u>5,807,748</u>	<u>250,313</u>	<u>1,345,179</u>	<u>11,014,244</u>	<u>-</u>
Total current assets	<u>6,894,872</u>	<u>10,033,482</u>	<u>4,425,415</u>	<u>3,511,056</u>	<u>24,864,825</u>	<u>154,935</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	660,773	234,779	-	895,552	-
Restricted certificates of deposit	-	-	18,221	-	18,221	-
Excess cost over market value of assets acquired, net	-	78,258	-	-	78,258	-
Capital assets						
Nondepreciable capital assets	251,391	643,710	430,494	-	1,325,595	-
Depreciable capital assets	26,945,684	68,966,185	45,621,214	2,314,769	143,847,852	16,772
Less accumulated depreciation	<u>(19,224,225)</u>	<u>(18,754,474)</u>	<u>(18,145,198)</u>	<u>(1,685,711)</u>	<u>(57,809,608)</u>	<u>(16,772)</u>
Total noncurrent assets	<u>7,972,850</u>	<u>51,594,452</u>	<u>28,159,510</u>	<u>629,058</u>	<u>88,355,870</u>	<u>-</u>
Total assets	<u>14,867,722</u>	<u>61,627,934</u>	<u>32,584,925</u>	<u>4,140,114</u>	<u>113,220,695</u>	<u>154,935</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pension	389,652	428,963	351,630	276,759	1,447,004	79,802
Defeasance on refunding	-	5,655	-	-	5,655	-
Total deferred outflows of resources	<u>389,652</u>	<u>434,618</u>	<u>351,630</u>	<u>276,759</u>	<u>1,452,659</u>	<u>79,802</u>
Total assets and deferred outflows of resources	<u>\$ 15,257,374</u>	<u>\$ 62,062,552</u>	<u>\$ 32,936,555</u>	<u>\$ 4,416,873</u>	<u>\$ 114,673,354</u>	<u>\$ 234,737</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 458,155	\$ 93,550	\$ 151,909	\$ 154,159	\$ 857,773	\$ 12,114
Due to other funds	91,734	568,861	703,042	43,253	1,406,890	4,295
Accrued interest payable	4,745	142,673	17,027	-	164,445	-
Other current liabilities	124,827	89,066	61,550	49,378	324,821	13,055
Current portion of long-term debt	<u>23,820</u>	<u>869,590</u>	<u>662,064</u>	<u>36,171</u>	<u>1,591,645</u>	<u>-</u>
Total current liabilities	<u>703,281</u>	<u>1,763,740</u>	<u>1,595,592</u>	<u>282,961</u>	<u>4,345,574</u>	<u>29,464</u>
Noncurrent liabilities						
Notes payable	27,262	4,355,876	2,059,371	105,203	6,547,712	-
Revenue bonds payable	742,762	13,452,697	7,705,882	-	21,901,341	-
Net pension liability	<u>1,775,623</u>	<u>1,962,062</u>	<u>1,605,544</u>	<u>1,173,739</u>	<u>6,516,968</u>	<u>340,730</u>
Total noncurrent liabilities	<u>2,545,647</u>	<u>19,770,635</u>	<u>11,370,797</u>	<u>1,278,942</u>	<u>34,966,021</u>	<u>340,730</u>
Total liabilities	<u>3,248,928</u>	<u>21,534,375</u>	<u>12,966,389</u>	<u>1,561,903</u>	<u>39,311,595</u>	<u>370,194</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pension	<u>74,383</u>	<u>79,851</u>	<u>63,594</u>	<u>55,582</u>	<u>273,410</u>	<u>16,045</u>
<b>NET POSITION</b>						
Net invested in capital assets	7,179,006	32,255,516	17,479,193	487,684	57,401,399	-
Restricted for debt service	-	660,773	253,000	-	913,773	-
Unrestricted	<u>4,755,057</u>	<u>7,532,037</u>	<u>2,174,379</u>	<u>2,311,704</u>	<u>16,773,177</u>	<u>(151,502)</u>
Total net position	<u>11,934,063</u>	<u>40,448,326</u>	<u>19,906,572</u>	<u>2,799,388</u>	<u>75,088,349</u>	<u>(151,502)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,257,374</u>	<u>\$ 62,062,552</u>	<u>\$ 32,936,555</u>	<u>\$ 4,416,873</u>	<u>\$ 114,673,354</u>	<u>\$ 234,737</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2017**

	<b>Business-type Activities</b>				<b>Total</b>	<b>Internal Service Fund</b>
	<b>Gas Department</b>	<b>Water Department</b>	<b>Wastewater Department</b>	<b>Sanitation Department</b>		
<b>Operating revenues</b>						
Sales to customers	\$ 8,782,160	\$ 6,956,671	\$ 2,756,128	\$ 3,611,842	\$ 22,106,801	\$ -
Transportation/surcharges	1,637,794	85,957	35,582	-	1,759,333	-
Other operating revenues	<u>351,194</u>	<u>10,600</u>	<u>86,191</u>	<u>52,235</u>	<u>500,220</u>	<u>-</u>
Total operating revenues	<u>10,771,148</u>	<u>7,053,228</u>	<u>2,877,901</u>	<u>3,664,077</u>	<u>24,366,354</u>	<u>-</u>
<b>Operating expenses</b>						
Gas purchases, net of refunds	5,143,818	-	-	-	5,143,818	-
Operating expenses	2,164,325	2,960,071	1,939,341	2,434,915	9,498,652	424,125
Maintenance	616,157	321,391	308,020	253,352	1,498,920	593
Depreciation	455,128	1,419,010	1,114,188	110,453	3,098,779	1,158
Amortization	<u>-</u>	<u>9,022</u>	<u>-</u>	<u>-</u>	<u>9,022</u>	<u>-</u>
Total operating expenses	<u>8,379,428</u>	<u>4,709,494</u>	<u>3,361,549</u>	<u>2,798,720</u>	<u>19,249,191</u>	<u>425,876</u>
Operating income (loss)	<u>2,391,720</u>	<u>2,343,734</u>	<u>(483,648)</u>	<u>865,357</u>	<u>5,117,163</u>	<u>(425,876)</u>
<b>Nonoperating revenues (expenses)</b>						
Gain (loss) on disposal of capital assets	(9,189)	18,393	2,788	(1,412)	10,580	-
Interest and investment revenue	9,980	19,837	27,074	4,916	61,807	482
Interest expense	<u>(29,498)</u>	<u>(474,632)</u>	<u>(206,862)</u>	<u>(4,578)</u>	<u>(715,570)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(28,707)</u>	<u>(436,402)</u>	<u>(177,000)</u>	<u>(1,074)</u>	<u>(643,183)</u>	<u>482</u>
Income (loss) before transfers	2,363,013	1,907,332	(660,648)	864,283	4,473,980	(425,394)
Transfers in (out)	<u>(2,451,500)</u>	<u>(1,803,008)</u>	<u>(151,500)</u>	<u>(339,500)</u>	<u>(4,745,508)</u>	<u>406,000</u>
<b>Change in net position</b>	(88,487)	104,324	(812,148)	524,783	(271,528)	(19,394)
Total net position-beginning	<u>12,022,550</u>	<u>40,344,002</u>	<u>20,718,720</u>	<u>2,274,605</u>	<u>75,359,877</u>	<u>(132,108)</u>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 11,934,063</u>	<u>\$ 40,448,326</u>	<u>\$ 19,906,572</u>	<u>\$ 2,799,388</u>	<u>\$ 75,088,349</u>	<u>\$ (151,502)</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2017**

	<u>Business-type Activities</u>				<u>Total</u>	<u>Internal Service Fund</u>
	<u>Gas Department</u>	<u>Water Department</u>	<u>Wastewater Department</u>	<u>Sanitation Department</u>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 10,544,675	\$ 7,088,487	\$ 2,802,991	\$ 3,656,453	\$ 24,092,606	\$ -
Cash payments to suppliers for goods and services	(6,536,364)	(1,855,229)	(1,055,821)	(1,534,358)	(10,981,772)	(58,286)
Cash payments to employees	(1,303,568)	(1,385,720)	(1,169,236)	(1,051,066)	(4,909,590)	(298,735)
Other operating revenues	351,194	10,600	86,191	52,235	500,220	-
<b>Net cash provided (used) by operating activities</b>	<u>3,055,937</u>	<u>3,858,138</u>	<u>664,125</u>	<u>1,123,264</u>	<u>8,701,464</u>	<u>(357,021)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Receipts (payments) on interfund loans	125,681	7,976	307,907	(193,890)	247,674	(1,557,649)
Transfers (to) from other funds	(2,451,500)	(1,803,008)	(151,500)	(339,500)	(4,745,508)	406,000
<b>Net cash provided (used) by non-capital financing activities</b>	<u>(2,325,819)</u>	<u>(1,795,032)</u>	<u>156,407</u>	<u>(533,390)</u>	<u>(4,497,834)</u>	<u>(1,151,649)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal paid on bonds and notes	(23,082)	(804,534)	(652,208)	(35,111)	(1,514,935)	-
Interest paid on bonds and notes	(29,591)	(477,534)	(206,299)	(4,837)	(718,261)	-
Proceeds from issuance of debt	-	450,000	-	-	450,000	-
Acquisition and construction of capital assets	(222,332)	(718,430)	(189,099)	(58,582)	(1,188,443)	-
Proceeds from sale of assets	5,287	5,603	4,788	1,088	16,766	-
<b>Net cash (used) by capital and related financing activities</b>	<u>(269,718)</u>	<u>(1,544,895)</u>	<u>(1,042,818)</u>	<u>(97,442)</u>	<u>(2,954,873)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest income	9,980	19,835	27,098	4,866	61,779	482
<b>Net cash provided by investing activities</b>	<u>9,980</u>	<u>19,835</u>	<u>27,098</u>	<u>4,866</u>	<u>61,779</u>	<u>482</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	470,380	538,046	(195,188)	497,298	1,310,536	(1,508,188)
<b>Balances-beginning of the year</b>	<u>1,768,413</u>	<u>2,120,108</u>	<u>445,663</u>	<u>688,912</u>	<u>5,023,096</u>	<u>1,663,123</u>
<b>BALANCES-END OF THE YEAR</b>	<u>\$ 2,238,793</u>	<u>\$ 2,658,154</u>	<u>\$ 250,475</u>	<u>\$ 1,186,210</u>	<u>\$ 6,333,632</u>	<u>\$ 154,935</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss):	\$ 2,391,720	\$ 2,343,734	\$ (483,648)	\$ 865,357	\$ 5,117,163	\$ (425,876)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	455,128	1,419,010	1,114,188	110,453	3,098,779	1,158
Amortization expense	-	9,022	-	-	9,022	-
Net pension liability activity	101,815	109,300	87,048	76,080	374,243	21,962
Change in assets and liabilities:						
Receivables, net	124,721	45,859	11,281	44,611	226,472	64,600
Inventory	(74,321)	(9,693)	7,111	-	(76,903)	-
Prepaid expenses	(15,006)	(16,390)	(11,871)	(11,679)	(54,946)	732
Accounts payable	95,533	(27,560)	(30,208)	54,252	92,017	7,748
Other liabilities	(23,653)	(15,144)	(29,776)	(15,810)	(84,383)	(27,345)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 3,055,937</u>	<u>\$ 3,858,138</u>	<u>\$ 664,125</u>	<u>\$ 1,123,264</u>	<u>\$ 8,701,464</u>	<u>\$ (357,021)</u>
<b>Supplemental disclosure of cash flow information:</b>						
Noncash capital and related financing activities:						
Payables for capital items, net	\$ 8,304	\$ 43,157	\$ 93,489	\$ -	\$ 144,950	\$ -

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Somerset, Kentucky (the City), operates under the Mayor-Council form of government and provides such services as public safety, streets, parks and recreation, emergency medical services, cemetery, fuel center, waterpark, economic and community development, gas, water, wastewater and sanitation utilities. The accounting policies of the City conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The accompanying financial statements of the City present the City's primary government over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. All related entities were evaluated using these criteria and the Somerset Municipal Projects Corporation was included in the general purpose financial statements. The Pulaski County Industrial Foundation was evaluated and excluded because its operations are primarily funded by a county-wide occupational tax. The Lake Cumberland Area Drug Task Force was evaluated and excluded because the board which oversees the task force contains one member from each participating government and the task force does not provide services primarily to the City.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, insurance premium taxes, occupational taxes, franchise taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services and other central administrative services. Allocations are charged equally among the effected departments. These charges are reported in the statement of activities as part of transfers. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include public safety, public services, streets, parks and recreation and sanitation.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The City reports the following major Governmental Funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**EMS Fund** - Is a special revenue fund used to account for the activities of the Somerset-Pulaski County Emergency Medical Services. The City of Somerset Common Council has the responsibility of approving all expenditures by the Somerset-Pulaski County Emergency Medical Service.

**Waterpark Fund**- Is a special revenue fund used to account for the waterpark activities provided to residents and visitors of the area, the operation of which is financed primarily by the general government.

**Fuel Center Fund** – Is a special revenue fund used to account for the activities of the fuel center provided to city departments, various organizations and the public.

**Capital Projects Fund** - The Capital Projects Fund is used to account for activity related to the construction of the Energy Center. During fiscal year 2017 the fund was closed as construction of the Energy Center was completed.

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position and changes in cash flow.

The City reports the following major Proprietary Funds:

**Gas Department Fund** - The gas department fund is used to account for the gas utility services provided to the residents and industries of the City, the operation of which is financed by user charges. The Gas Fund also collects user charges for transporting gas for producers and various gas companies.

**Water Department Fund** - The water department fund is used to account for the water utility services provided to the residents and industries of the City and area water districts, the operation of which is financed by user charges.

**Wastewater Department Fund** - The wastewater department fund is used to account for the wastewater utility services provided to the residents and industries of the City, the operation of which is financed by user charges.

**Sanitation Department Fund** - The sanitation department fund is used to account for the sanitation services provided to the residents and industries of the City, the operation of which is financed by user charges.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Additionally, the City reports the following fund type:

**Internal Service Fund** - The internal service fund accounts for the billing and collection activities for water, wastewater, gas and sanitation services. The operation of the fund is financed by transfers from the other departments. This fund is reported with business-type activities in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's gas, water, wastewater and sanitation funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal service fund are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for enterprise funds and internal service fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**D. Fund Balance**

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. 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 constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

*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 Somerset. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the council.

*Assigned* – for all governmental funds, other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

*Unassigned* – for the General Fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**D. Fund Balance (continued)**

For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City Council.

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second, and unassigned funds last.

	<b>General</b>	<b>EMS Fund</b>	<b>Waterpark</b>	<b>Fuel Center</b>	<b>Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
Nonspendable:							
Inventory	\$ 10,320	\$ -	\$ 35,990	\$ 66,064	\$ -	\$ 16,943	\$ 129,317
Prepays	77,979	34,118	2,636	461	-	27,228	142,422
Restricted	1,346,133	-	-	-	-	295,365	1,641,498
Committed	-	-	-	-	-	254,776	254,776
Assigned	194,350	-	-	-	-	-	194,350
Unassigned	<u>1,510,679</u>	<u>(127,683)</u>	<u>(4,238,830)</u>	<u>94,769</u>	<u>-</u>	<u>(281,576)</u>	<u>(3,042,641)</u>
Total	<u>\$ 3,139,461</u>	<u>\$ (93,565)</u>	<u>\$ (4,200,204)</u>	<u>\$ 161,294</u>	<u>\$ -</u>	<u>\$ 312,736</u>	<u>\$ (680,278)</u>

**E. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**F. Assets, Liabilities and Net Position or Fund Balance**

Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits. Certificates of deposit include all certificates owned by the City. Cash and cash equivalents and certificates of deposits are stated at actual cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**F. Assets, Liabilities and Net Position or Fund Balance (continued)**

Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary and internal service funds consider all highly liquid investments (both restricted and unrestricted) with a maturity of 90 days or less when purchased to be cash equivalents.

Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Inventories in the general and proprietary funds consist of expendable supplies held for consumption and inventory for concessions and retail sale in the waterpark stated on a first-in, first-out method. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Inventories of the special revenue funds, other than concessions in the parks and recreation department, are recorded as expenditures when purchased rather than when consumed. Concessions inventory of the parks and recreation department are recorded at cost on the first-in, first-out method.

Accounts Receivable

Governmental activities accounts receivable consists of property taxes, occupational license fees, insurance premium taxes, franchise fees, service revenues and grant funds which are disbursed on an expenditure-reimbursement plan.

Business-type activities extend credit to substantially all of their customers.

The City maintains allowances for doubtful accounts based on evaluation by management and percentages applied to the various aging periods of accounts receivable. Specific accounts deemed uncollectible are charged to the allowance upon evaluation by management. Evaluation factors include familiarity with the customer, credit history and the age of the unpaid bill.

Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**F. Assets, Liabilities and Net Position or Fund Balance (continued)**

Capital Assets and Depreciation (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000 for assets other than Buildings, Building/Land Improvements and Infrastructure. The capitalization threshold for Buildings and Building Improvements and Infrastructure is \$50,000 and for Land Improvements the capitalization threshold is \$25,000.

Transfers of capital assets between funds are recorded at the net book value of the transferred asset at the time of transfer.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Years</b>
Buildings and Structures	20-50
Vehicles	4-15
Other Equipment	3-25
Infrastructure	20-100

Compensated Absences

The City allows employees to accumulate unused sick leave to a maximum of 120 days. Earned vacation time is generally required to be used within one year of accrual. Upon termination, employees are given the option of taking credit towards their retirement for accumulated sick days or taking payment for fifty percent of accumulated days. Also, at termination, any accumulated vacation not taken will be paid to the employee. The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable and (4) where amounts can be reasonably estimated. The amount of vacation liability is included in the financial statements in the accrued liabilities total. The amount of sick leave due is not practicably determinable.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

**G. 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 the accrual basis. With the exception of the proprietary funds, this approximates accounting principles generally accepted in the United States of America. The primary difference for the proprietary funds between accounting principles generally accepted in the United States of America and the cash basis is in the treatment of capital improvements and the related depreciation and principal payments on debt. All annual appropriations lapse at fiscal year-end, even if encumbered.

In June, the City Council adopts the annual fiscal year budgets for city operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

**H. Other Accounting Policies**

**Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, transfer assets and service debt. The accompanying financial statements generally reflect such transactions as transfers.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**I. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through November 20, 2017, 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, 2017, have not been evaluated by the City.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**2. CASH AND INVESTMENTS**

Custodial Credit Risks – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk beyond that specified in KRS 66.480.

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2017 are as follows:

Carrying amount	\$ 19,462,299
Bank balance	\$ 19,926,053
FDIC Insurance	\$ 2,226,350
Bank Deposit Guaranty Bond	\$ 1,409,810
Uninsured and collateral held by the pledging financial institution’s trust department or agent and pledged to the City, in the depositor-government’s name	\$ 16,289,893
Uninsured and uncollateralized	\$ -

**3. ACCOUNTS RECEIVABLE**

Receivables at June 30, 2017 for all funds of the City are as follows:

		<b>Licenses &amp;</b>						
	<b>Accounts</b>	<b>Taxes</b>	<b>Permits</b>	<b>Grants</b>	<b>Other</b>	<b>Allowance</b>	<b>Total</b>	
General Fund	\$ -	\$ 54,617	\$ 1,327,847	\$ 30,112	\$ 111,615	\$ -	\$ 1,524,191	
EMS Fund	5,059,697	-	-	-	-	(4,129,739)	929,958	
Fuel Center	-	-	-	-	25,780	-	25,780	
Waterpark	170,828	-	-	-	-	-	170,828	
Other Gov.	-	-	-	-	87,068	-	87,068	
Gas	669,591	-	-	-	-	-	669,591	
Water	590,896	-	-	-	-	-	590,896	
Wastewater	301,025	-	-	-	-	-	301,025	
Sanitation	366,997	-	-	-	-	-	366,997	
<b>Totals</b>	<b><u>\$ 7,159,034</u></b>	<b><u>\$ 54,617</u></b>	<b><u>\$ 1,327,847</u></b>	<b><u>\$ 30,112</u></b>	<b><u>\$ 224,463</u></b>	<b><u>\$ (4,129,739)</u></b>	<b><u>\$ 4,666,334</u></b>	

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**4. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2017 is as follows:

Interfund receivables and payables within governmental activities and business-type activities not eliminated for purposes of government-wide financial statements as of June 30, 2017 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Gas Department	\$ 88,649
General Fund	Water Department	566,980
General Fund	Wastewater Department	500,193
General Fund	Sanitation Department	37,954
General Fund	Internal Service Fund	4,295
Fuel Center Fund	Gas Department	3,085
Fuel Center Fund	Water Department	2,154
Fuel Center Fund	Wastewater Department	2,454
Fuel Center Fund	Sanitation Department	4,960
Gas Department	General Fund	(3,611,004)
Water Department	General Fund	(4,507,441)
Water Department	Waterpark	(1,300,000)
Wastewater Department	General Fund	(250,159)
Sanitation Department	General Fund	<u>(1,145,179)</u>
Internal Balances, Net		<u>\$ (9,603,059)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2017 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Parks & Recreation	\$ 277,037
General Fund	EMS Fund	1,179,317
General Fund	Coal & Mineral Severance	166,064
General Fund	Cemetery Fund	2,011
General Fund	Waterpark	3,193,856
General Fund	Fuel Center Fund	1,962
General Fund	Tourism & Travel	2,172
Fuel Center Fund	General Fund	9,115
Fuel Center Fund	Parks & Recreation	829
Fuel Center Fund	EMS Fund	5,867
Fuel Center Fund	Tourism & Travel	23
Sanitation	Wastewater Department	200,000
Water Department	Wastewater Department	176
Wastewater Department	Water Department	154

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**5. CAPITAL ASSETS**

A summary of changes in City's capital assets during the year ended June 30, 2017 is as follows:

	June 30, 2016	Additions/ Transfers	Disposals/ Transfers	June 30, 2017
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Land	\$ 2,221,797	\$ 134,983	\$ -	\$ 2,356,780
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>54,409</u>	<u>-</u>	<u>-</u>	<u>54,409</u>
Totals	<u>2,287,274</u>	<u>134,983</u>	<u>-</u>	<u>2,422,257</u>
Capital assets that are depreciated:				
Infrastructure	35,951,563	158,730	18,941	36,091,352
Building and improvements	20,797,710	153,046	441,000	20,509,756
Vehicles	5,350,033	169,741	765,443	4,754,331
Equipment	2,340,302	86,220	-	2,426,522
Office equipment	1,009,686	-	-	1,009,686
Land improvements	<u>1,264,190</u>	<u>-</u>	<u>-</u>	<u>1,264,190</u>
Totals	<u>66,713,484</u>	<u>567,737</u>	<u>1,225,384</u>	<u>66,055,837</u>
Total capital assets	<u>69,000,758</u>	<u>702,720</u>	<u>1,225,384</u>	<u>68,478,094</u>
Accumulated depreciation:				
Infrastructure	19,860,888	1,089,585	11,680	20,938,793
Buildings and improvements	3,428,110	603,201	98,000	3,933,311
Vehicles	4,255,503	261,161	709,003	3,807,661
Equipment	1,863,356	97,794	-	1,961,150
Office equipment	954,930	23,720	-	978,650
Land improvements	<u>857,473</u>	<u>57,945</u>	<u>-</u>	<u>915,418</u>
Totals	<u>31,220,260</u>	<u>2,133,406</u>	<u>818,683</u>	<u>32,534,983</u>
<b>Capital Assets, Net</b>	<u>\$ 37,780,498</u>	<u>\$ (1,430,686)</u>	<u>\$ 406,701</u>	<u>\$ 35,943,111</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**5. CAPITAL ASSETS (CONTINUED)**

	June 30, 2016	Additions/ Transfers	Disposals/ Transfers	June 30, 2017
<b>Business-Type Activities</b>				
Capital assets not depreciated:				
Land	\$ 904,933	\$ -	\$ -	\$ 904,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>141,962</u>	<u>282,588</u>	<u>150,910</u>	<u>273,640</u>
Totals	<u>1,193,917</u>	<u>282,588</u>	<u>150,910</u>	<u>1,325,595</u>
Capital assets that are depreciated:				
Utility plant and dist. system	87,163,859	932,664	-	88,096,523
Building and improvements	49,279,700	-	-	49,279,700
Vehicles	3,109,195	24,998	277,213	2,856,980
Equipment	2,491,754	248,843	23,637	2,716,960
Office equipment	864,195	-	-	864,195
Land improvements	<u>50,266</u>	<u>-</u>	<u>-</u>	<u>50,266</u>
Totals	<u>142,958,969</u>	<u>1,206,505</u>	<u>300,850</u>	<u>143,864,624</u>
Total capital assets	<u>144,152,886</u>	<u>1,489,093</u>	<u>451,760</u>	<u>145,190,219</u>
Accumulated depreciation:				
Utility plant and dist. system	38,762,970	1,834,716	-	40,597,686
Buildings and improvements	11,331,510	990,923	-	12,322,433
Vehicles	2,283,610	147,642	255,735	2,175,517
Equipment	2,106,104	103,615	-	2,209,719
Office equipment	488,859	19,620	23,636	484,843
Land improvements	<u>32,761</u>	<u>3,421</u>	<u>-</u>	<u>36,182</u>
Totals	<u>55,005,814</u>	<u>3,099,937</u>	<u>279,371</u>	<u>57,826,380</u>
<b>Capital Assets, Net</b>	<u>\$ 89,147,072</u>	<u>\$ (1,610,844)</u>	<u>\$ 172,389</u>	<u>\$ 87,363,839</u>
<b>Primary Government Capital Assets, Net</b>	<u>\$ 126,927,570</u>	<u>\$ (3,041,530)</u>	<u>\$ 579,090</u>	<u>\$ 123,306,950</u>



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**5. CAPITAL ASSETS (CONTINUED)**

Depreciation expense was allocated to functions/programs of the primary government as follows:

<b>Primary Government</b>			<i>Business-Type Activities</i>	
<u>Governmental Activities</u>				
Waterpark	\$ 700,821		Water	\$ 1,419,010
Streets	559,138		Wastewater	1,114,188
Public Safety	137,836		Gas	455,128
General Government	446,512		Sanitation	110,453
Emergency Medical Services	150,088		Internal Service	<u>1,158</u>
Parks and Recreation	106,372			<u>\$ 3,099,937</u>
Fuel Center	29,715			
Cemetery	2,784			
Intergovernmental Programs	<u>140</u>			
	<u>\$ 2,133,406</u>			

**6. LONG-TERM DEBT**

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2017:

Description	Balance June 30, 2016	Issued	Retired	June 30, 2017	Due within One year
<b>Primary Government</b>					
<u>Governmental Activities</u>					
<b>General Fund</b>					
Series 2010 with interest at 2.00% to 3.00%, maturing in fiscal year 2019	\$ 675,000	\$ -	\$ 220,000	\$ 455,000	\$ 220,000
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	4,976,785	-	135,576	4,841,209	141,226
Series 2015A with interest at 3.25% maturing in fiscal year 2054	8,500,000	-	110,500	8,389,500	114,500
Series 2015B with interest at 3.25% maturing in fiscal year 2054	850,000	-	10,000	840,000	10,500
<b>Waterpark</b>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	<u>1,712,854</u>	<u>-</u>	<u>46,661</u>	<u>1,666,193</u>	<u>48,605</u>
<b>Net Pension Liability</b>	<u>19,136,109</u>	<u>1,286,589</u>	<u>-</u>	<u>20,422,698</u>	<u>-</u>
Total governmental activities	<u>\$ 35,850,748</u>	<u>\$ 1,286,589</u>	<u>\$ 522,737</u>	<u>\$ 36,614,600</u>	<u>\$ 534,831</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**6. LONG-TERM DEBT (CONTINUED)**

Description	Balance June 30, 2016	Issued	Retired	June 30, 2017	Due within One year
<b><u>Business-type Activities</u></b>					
<b>Gas Department</b>					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	\$ 786,686	\$ -	\$ 21,600	\$ 765,086	\$ 22,324
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	<u>30,240</u>	<u>-</u>	<u>1,482</u>	<u>28,758</u>	<u>1,496</u>
Total Gas Department	<u>816,926</u>	<u>-</u>	<u>23,082</u>	<u>793,844</u>	<u>23,820</u>
<b>Water Department</b>					
Series 2012 GO with interest at 2%, maturing in fiscal year 2019	1,135,000	-	370,000	765,000	380,000
Original issue premium	37,795	-	12,598	25,197	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	8,699,500	-	155,500	8,544,000	159,500
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,833,000	-	86,500	4,746,500	88,500
Cumberland Valley Note with interest at 2.5% maturing in fiscal year 2022	-	450,000	42,534	407,466	86,590
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	<u>4,340,000</u>	<u>-</u>	<u>150,000</u>	<u>4,190,000</u>	<u>155,000</u>
Total Water Department	<u>19,045,295</u>	<u>450,000</u>	<u>817,132</u>	<u>18,678,163</u>	<u>869,590</u>
<b>Wastewater Department</b>					
KIA note with interest at 1.2%, maturing in fiscal year 2018	292,369	-	145,310	147,059	147,059
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	1,333,675	-	36,000	1,297,675	37,845
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	7,207,535	-	378,842	6,828,693	382,641
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	342,425	-	16,587	325,838	16,938

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**6. LONG-TERM DEBT (CONTINUED)**

**Business-type Activities, continued**  
**Wastewater Department, continued**

Description	June 30, 2016	Issued	Retired	June 30, 2017	Due within One year
Note payable to local bank with interest at 3.25% and adjusting after 60 months to a Prime Rate, maturing in fiscal year 2035	\$ 1,903,521	\$ -	\$ 75,469	\$ 1,828,052	\$ 77,581
Total Wastewater Department	<u>11,079,525</u>	<u>-</u>	<u>652,208</u>	<u>10,427,317</u>	<u>662,064</u>
<b>Sanitation Department</b>					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	<u>176,485</u>	<u>-</u>	<u>35,111</u>	<u>141,374</u>	<u>36,171</u>
Total Sanitation Department	<u>176,485</u>	<u>-</u>	<u>35,111</u>	<u>141,374</u>	<u>36,171</u>
<b>Net Pension Liability</b>	<u>6,429,157</u>	<u>428,541</u>	<u>-</u>	<u>6,857,698</u>	<u>-</u>
Total Business-type activities	<u>37,547,388</u>	<u>878,541</u>	<u>1,527,533</u>	<u>36,898,396</u>	<u>1,591,645</u>
<b>Total primary government</b>	<b><u>\$ 73,398,136</u></b>	<b><u>\$ 2,165,130</u></b>	<b><u>\$ 2,050,270</u></b>	<b><u>\$ 73,512,996</u></b>	<b><u>\$ 2,126,476</u></b>

The lease agreement in the Sanitation Department is a capital lease for a 2016 garbage truck acquired in March of 2016. The net book value of the garbage truck as of June 30, 2017 is \$148,320.

The Series 2011 Bond issue is dated November 1, 2011 in the amount of \$8,810,000 and carries an interest rate of 2.10 to 4.25%. The issue was intended to benefit the general fund, waterpark, wastewater department, and gas department. The issue is included on the Statement of Net Position under long-term debt as follows:

General	\$ 4,841,209
Waterpark	1,666,193
Gas department	765,086
Wastewater department	<u>1,297,675</u>
Total	<u>\$ 8,570,163</u>

During fiscal year 2014, the City entered into a perpetual agreement with the City of Ferguson, Kentucky ("Ferguson"), in which the City obtained the sewer and gas utility system from Ferguson, in order to preserve the integrity of the utility system and to mitigate any risks regarding natural gas distribution lines, of which the City would have been held ultimately liable by governing agencies. Under the terms of the agreement, the City will pay Ferguson an amount not to exceed \$65,000 annually. A portion of this payment is considered compensation for the transfer of assets, and is being paid over a twenty year period at an interest rate of 2.0%. This amount has been recorded in the gas and sewer departments as a note payable based upon the value of each system, which has been determined to be \$33,750 and \$382,179, respectively.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

**6. LONG-TERM DEBT (CONTINUED)**

The annual debt service requirements to maturity for all long-term debt are as follows:

**Governmental Activities**

Year ended	Principal	Interest	Total
2018	\$ 534,831	\$ 553,169	\$ 1,088,000
2019	550,034	536,579	1,086,613
2020	509,365	520,360	1,029,725
2021	525,255	504,114	1,029,369
2022	541,645	486,574	1,028,219
2023-2027	3,027,911	2,122,321	5,150,232
2028-2032	3,683,861	1,485,410	5,169,271
2033-2037	1,127,000	1,019,054	2,146,054
2038-2042	1,342,000	818,951	2,160,951
2043-2047	1,597,000	580,743	2,177,743
2048-2052	1,900,500	297,221	2,197,721
2053-2054	852,500	27,861	880,361
	<u>\$ 16,191,902</u>	<u>\$ 8,952,357</u>	<u>\$ 25,144,259</u>

**Business-type Activities**

Year ended	Principal	Interest	Total
2018	\$ 1,591,645	\$ 704,022	\$ 2,295,667
2019	1,468,999	672,002	2,141,001
2020	1,165,957	643,951	1,809,908
2021	1,181,189	618,139	1,799,328
2022	1,132,645	592,080	1,724,725
2023-2027	5,806,362	2,565,894	8,372,256
2028-2032	6,561,622	1,801,566	8,363,188
2033-2037	4,070,082	1,028,824	5,098,906
2038-2042	2,079,000	661,396	2,740,396
2043-2047	2,338,000	429,781	2,767,781
2048-2052	<u>2,620,000</u>	<u>169,320</u>	<u>2,789,320</u>
Unamortized premium	<u>25,197</u>	-	<u>25,197</u>
	<u>\$ 30,040,698</u>	<u>\$ 9,886,975</u>	<u>\$ 39,927,673</u>

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2017 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the various funds. At June 30, 2017, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**7. RETIREMENT PLAN**

**CERS**

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

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

*Contributions* – For the year ended June 30, 2017, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2017, participating employers contributed 18.68% of each employee's wages for non-hazardous job classifications and 31.06% of each employee's wages for hazardous job classifications. The contribution rates are 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% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 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. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2017, the City contributed \$1,156,795, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$863,880 to the CERS pension fund and \$292,915 to the CERS insurance fund. The City contributed \$1,525,698, or 100% of the required contribution for hazardous job classifications, which was allocated \$1,066,417 to the CERS pension fund and \$459,281 to the CERS insurance fund.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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

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

*Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net</b>		
<b>Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 27,280,396</u>	<u>\$ 12,144,563</u>	<u>\$ 15,135,833</u>

The net pension liability was measured as of June 30, 2016, 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. The City's proportionate share at June 30, 2016 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.247%	.882%

The proportionate share at June 30, 2016 relative to June 30, 2015 decreased for non-hazardous by .019% and hazardous by .040%.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**7. RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2017, the City recognized pension expense of \$3,070,397. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 271,319	\$ -
Changes of assumptions	1,511,912	-
Net difference between projected and actual earnings on Plan investments	2,418,557	-
Changes in proportion and differences between City contributions and proportionate share of contributions	126,521	890,893
City contributions subsequent to the measurement date	<u>1,930,297</u>	<u>-</u>
Total	<u>\$ 6,258,606</u>	<u>\$ 890,893</u>

The \$1,930,297 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 for the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>		
2018	\$	999,674
2019	\$	732,642
2020	\$	1,167,919
2021	\$	537,181

*Actuarial Assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

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

**Hazardous**

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

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**7. RETIREMENT PLAN (CONTINUED)**

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

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

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

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**7. RETIREMENT PLAN (CONTINUED)**

*Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	6.50%	\$ 15,134,096	6.50%	\$ 19,015,020
Current discount rate	7.50%	\$ 12,144,563	7.50%	\$ 15,135,833
1% increase	8.50%	\$ 9,581,944	8.50%	\$ 11,936,174

*Payable to the Pension Plan* – At June 30, 2017, the City reported a payable of \$420,349 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017. The payable includes both the pension and insurance contribution allocation.

**8. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2017 were levied in September, 2016 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Per K.R.S. 134.020
1. Due date for payment of taxes, 1% discount	November 1
2. Face value amount payment due	November 2 through December 31

Vehicle taxes are collected by the County Clerk of Pulaski and are due and collected in the birth month of the vehicle's licensee.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017**

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**9. TRANSFER OF FUNDS**

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General operations	\$ 894,900
General	Waterpark	Debt service	\$ 110,584
EMS	General	General operations	\$ 25,000
Tourism	General	General operations	\$ 12,000
Capital Projects	General	Fund close out	\$ 149,288
Gas	General	General operations	\$ 1,900,000
Gas	General	General operations	\$ 400,000
Gas	General	General operations	\$ 50,000
Gas	Internal Service	General operations	\$ 101,500
Sanitation	Internal Service	General operations	\$ 101,500
Sanitation	Waterpark	General operations	\$ 238,000
Water	General	General operations	\$ 1,000,000
Water	General	General operations	\$ 651,508
Water	General	General operations	\$ 50,000
Water	Internal Service	General operations	\$ 101,500
Wastewater	Internal Service	General operations	\$ 101,500
Wastewater	General	General operations	\$ 50,000

**10. CONDUIT DEBT**

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City, payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2017 is not readily available.

**11. LEGAL CONTINGENCIES**

The City is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. City officials and legal counsel believes these actions are without merit, adequately covered by insurance or that the ultimate liability, if any, will not materially affect the City's financial position.

**12. RISK MANAGEMENT**

The City is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, employee injury, fiduciary responsibility, etc. Each of these risks areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated which include worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **SUPPLEMENTAL INFORMATION**

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Taxes	\$ 1,345,000	\$ 1,345,000	\$ 1,413,922	\$ 68,922
Licenses and permits	5,373,500	5,449,020	7,384,085	1,935,065
Fines and forfeits	17,000	17,000	11,300	(5,700)
Intergovernmental revenues	457,500	457,500	832,611	375,111
Interest income	15,000	15,000	26,269	11,269
Other revenues	212,800	212,800	100,220	(112,580)
<b>TOTAL REVENUES</b>	<u>7,420,800</u>	<u>7,496,320</u>	<u>9,768,407</u>	<u>2,272,087</u>
<b>EXPENDITURES</b>				
General government	3,587,695	3,598,195	3,265,437	(332,758)
Public safety	6,012,450	6,312,450	5,828,230	(484,220)
Public services	211,000	221,000	184,888	(36,112)
Streets	929,365	933,115	900,223	(32,892)
Downtown revitalization	45,870	45,870	45,870	-
Intergovernmental programs	149,435	149,435	153,585	4,150
Capital outlay	679,000	676,000	517,247	(158,753)
Debt service - principal	432,300	432,300	476,076	43,776
Debt service - interest	613,200	613,200	453,727	(159,473)
<b>TOTAL EXPENDITURES</b>	<u>12,660,315</u>	<u>12,981,565</u>	<u>11,825,283</u>	<u>(1,156,282)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	245,730	259,379	13,649
Transfer from other funds	4,138,508	4,138,508	4,287,795	149,287
Transfer to other funds	(994,900)	(994,900)	(1,005,483)	(10,583)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>3,143,608</u>	<u>3,389,338</u>	<u>3,541,691</u>	<u>152,353</u>
<b>NET CHANGE IN FUND BALANCES</b>	(2,095,907)	(2,095,907)	1,484,815	3,580,722
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,654,646</u>	<u>1,654,646</u>	<u>1,654,646</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ (441,261)</u>	<u>\$ (441,261)</u>	<u>\$ 3,139,461</u>	<u>\$ 3,580,722</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**EMS FUND**  
**for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 3,201,500	\$ 4,511,500	\$ 3,031,718	\$ (1,479,782)
Intergovernmental revenues	1,375,200	1,375,200	1,329,849	(45,351)
Interest income	400	400	1,824	1,424
Other revenues	<u>28,100</u>	<u>28,100</u>	<u>54,272</u>	<u>26,172</u>
<b>TOTAL REVENUES</b>	<u>4,605,200</u>	<u>5,915,200</u>	<u>4,417,663</u>	<u>(1,497,537)</u>
<b>EXPENDITURES</b>				
Emergency medical services	4,470,200	5,890,200	4,438,254	(1,451,946)
Capital outlay	<u>110,000</u>	<u>-</u>	<u>27,292</u>	<u>27,292</u>
<b>TOTAL EXPENDITURES</b>	<u>4,580,200</u>	<u>5,890,200</u>	<u>4,465,546</u>	<u>(1,424,654)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	6,361	6,361
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(18,639)</u>	<u>6,361</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(66,522)	(66,522)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>(27,043)</u>	<u>(27,043)</u>	<u>(27,043)</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ (27,043)</u>	<u>\$ (27,043)</u>	<u>\$ (93,565)</u>	<u>\$ (66,522)</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**WATERPARK FUND**  
**for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	1,173,000	\$ 1,173,000	\$ 1,076,783	\$ (96,217)
Interest income	500	500	1,232	732
Other revenues	<u>13,000</u>	<u>13,000</u>	<u>31,259</u>	<u>18,259</u>
<b>TOTAL REVENUES</b>	<u>1,186,500</u>	<u>1,186,500</u>	<u>1,109,274</u>	<u>(77,226)</u>
<b>EXPENDITURES</b>				
Waterpark	1,424,500	1,424,500	1,133,440	(291,060)
Debt service - principal	-	-	46,661	46,661
Debt service - interest	-	-	63,923	63,923
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,424,500</u>	<u>1,424,500</u>	<u>1,244,024</u>	<u>(180,476)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	4,355	4,355
Transfer from other funds	<u>238,000</u>	<u>238,000</u>	<u>348,584</u>	<u>110,584</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>238,000</u>	<u>238,000</u>	<u>352,939</u>	<u>114,939</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	218,189	218,189
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>(4,418,393)</u>	<u>(4,418,393)</u>	<u>(4,418,393)</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ (4,418,393)</u>	<u>\$ (4,418,393)</u>	<u>\$ (4,200,204)</u>	<u>\$ 218,189</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON**  
**FUEL CENTER FUND**  
**for the year ended June 30, 2017**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,403,950	1,403,950	\$ 650,907	\$ (753,043)
Interest income	1,000	1,000	466	(534)
Other revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUES</b>	<u>1,404,950</u>	<u>1,404,950</u>	<u>651,373</u>	<u>(753,577)</u>
<b>EXPENDITURES</b>				
Fuel center	1,404,950	1,404,950	721,960	(682,990)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,404,950</u>	<u>1,404,950</u>	<u>721,960</u>	<u>(682,990)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(70,587)	(70,587)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>231,881</u>	<u>231,881</u>	<u>231,881</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 231,881</u>	<u>\$ 231,881</u>	<u>\$ 161,294</u>	<u>\$ (70,587)</u>

**CITY OF SOMERSET, KENTUCKY  
 REQUIRED SUPPLEMENTAL SCHEDULE OF  
 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS  
 Last Four Fiscal Years**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
City's proportion of the net pension liability	0.247%	0.266%	0.257%	0.257%
City's proportionate share of the net pension liability (asset)	\$ 12,144,563	\$ 11,416,098	\$ 8,349,736	\$ 9,448,091
City's covered employee payroll	\$ 5,859,201	\$ 6,313,654	\$ 5,861,806	\$ 5,358,488
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	207.27%	180.82%	142.44%	176.32%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.



**CITY OF SOMERSET, KENTUCKY  
REQUIRED SUPPLEMENTAL SCHEDULE OF  
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS  
Last Four Fiscal Years**

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	<b>2017</b>		<b>2016</b>		<b>2015</b>		<b>2014</b>
City's proportion of the net pension liability	0.882%		0.922%		0.923%		0.923%
City's proportionate share of the net pension liability (asset)	\$ 15,135,833	\$	14,149,168	\$	11,098,449	\$	12,345,466
City's covered employee payroll	\$ 4,556,589	\$	4,822,081	\$	4,681,614	\$	4,724,814
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	332.17%		293.42%		237.06%		261.29%
Plan fiduciary net position as a percentage of the total pension liability	53.95%		57.52%		63.46%		57.74%

**Notes:**

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the City.

The City's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the Schedule of Contributions.

**CITY OF SOMERSET, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS  
Last Five Fiscal Years**

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Contractually required employer contribution	\$ 863,880	\$ 727,713	\$ 804,991	\$ 805,078	\$ 675,388
Contributions relative to contractually required employer contribution	<u>863,880</u>	<u>727,713</u>	<u>804,991</u>	<u>805,078</u>	<u>675,388</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 6,150,570	\$ 5,859,201	\$ 6,313,654	\$ 5,861,806	\$ 5,358,488
Employer contributions as a percentage of covered-employee payroll	14.05%	12.42%	12.75%	13.73%	12.60%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

**CITY OF SOMERSET, KENTUCKY  
REQUIRED SUPPLEMENTAL  
SCHEDULE OF CONTRIBUTIONS - HAZARDOUS  
Last Five Fiscal Years**

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	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 1,066,417	\$ 924,463	\$ 1,002,090	\$ 1,016,016	\$ 948,760
Contributions relative to contractually required employer contribution	<u>1,066,417</u>	<u>924,463</u>	<u>1,002,090</u>	<u>1,016,016</u>	<u>948,760</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 4,912,100	\$ 4,556,589	\$ 4,822,081	\$ 4,681,614	\$ 4,724,814
Employer contributions as a percentage of covered-employee payroll	21.71%	20.29%	20.78%	21.70%	20.08%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

**CITY OF SOMERSET, KENTUCKY  
COMBINING BALANCE SHEET  
ALL NONMAJOR FUNDS  
June 30, 2017**

	<b>Municipal Aid Projects Fund</b>	<b>Parks &amp; Recreation Fund</b>	<b>Coal &amp; Mineral Severance Fund</b>	<b>Cemetery Fund</b>	<b>Travel &amp; Tourism Fund</b>	<b>2017 Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 146,199	\$ 189,329	\$ 11,964	\$ 238,598	\$ 103,062	\$ 689,152
Accounts receivable	26,169	131	6,330	23,754	30,684	87,068
Inventory	-	2,542	-	14,401	-	16,943
Prepaid expenses	-	13,803	-	459	12,966	27,228
Total assets	<u>\$ 172,368</u>	<u>\$ 205,805</u>	<u>\$ 18,294</u>	<u>\$ 277,212</u>	<u>\$ 146,712</u>	<u>\$ 820,391</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Accounts payable	\$ -	\$ 15,089	\$ -	\$ 2,993	\$ 6,586	\$ 24,668
Due to other fund	-	277,883	166,064	2,119	2,303	448,369
Other current liabilities	-	30,294	-	2,464	1,860	34,618
Total liabilities	-	323,266	166,064	7,576	10,749	507,655
Fund balance	<u>172,368</u>	<u>(117,461)</u>	<u>(147,770)</u>	<u>269,636</u>	<u>135,963</u>	<u>312,736</u>
Total liabilities and fund balances	<u>\$ 172,368</u>	<u>\$ 205,805</u>	<u>\$ 18,294</u>	<u>\$ 277,212</u>	<u>\$ 146,712</u>	<u>\$ 820,391</u>

**CITY OF SOMERSET, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2017**

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2017 Total
<b>REVENUES</b>						
Intergovernmental revenues	\$ 225,216	\$ -	\$ 25,436	\$ -	\$ 273,392	\$ 524,044
Charges for services	-	160,391	-	57,675	-	218,066
Interest income	1,598	363	114	1,311	-	3,386
Other revenues	-	105,210	-	4,005	856	110,071
<b>Total revenues</b>	<u>226,814</u>	<u>265,964</u>	<u>25,550</u>	<u>62,991</u>	<u>274,248</u>	<u>855,567</u>
<b>EXPENDITURES</b>						
Current						
Streets	97,344	-	-	-	-	97,344
Parks and recreation	-	1,076,520	-	-	-	1,076,520
Cemetery	-	-	-	89,419	-	89,419
Travel and tourism	-	-	-	-	320,407	320,407
Capital outlay	133,230	-	-	-	-	133,230
Debt Service	-	-	-	-	-	-
<b>Total expenditures</b>	<u>230,574</u>	<u>1,076,520</u>	<u>-</u>	<u>89,419</u>	<u>320,407</u>	<u>1,716,920</u>
Excess revenues over (under) expenditures before other sources (uses)	(3,760)	(810,556)	25,550	(26,428)	(46,159)	(861,353)
<b>Other financing sources</b>						
Proceeds from sale of assets	-	6,577	-	-	-	6,577
Transfers from (to) other funds	-	894,900	-	-	(12,000)	882,900
<b>Total other financing sources</b>	-	901,477	-	-	(12,000)	889,477
<b>Excess revenues and other sources over (under) expenditures</b>	(3,760)	90,921	25,550	(26,428)	(58,159)	28,124
Fund balances, beginning of year	176,128	(208,382)	(173,320)	296,064	194,122	284,612
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 172,368</u>	<u>\$ (117,461)</u>	<u>\$ (147,770)</u>	<u>\$ 269,636</u>	<u>\$ 135,963</u>	<u>\$ 312,736</u>

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**GAS DEPARTMENT**  
for the year ended June 30, 2017

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 15,906,200	\$ 8,782,160	\$ (7,124,040)
Transportation/surcharges	1,526,000	1,637,794	111,794
Other operating revenues	308,500	351,194	42,694
<b>TOTAL OPERATING REVENUES</b>	<b>17,740,700</b>	<b>10,771,148</b>	<b>(6,969,552)</b>
<b>OPERATING EXPENSES</b>			
Gas purchases, net of refunds	11,696,400	5,143,818	(6,552,582)
Maintenance	627,500	616,157	(11,343)
Personnel services	1,376,000	1,405,383	29,383
Supplies	111,000	63,079	(47,921)
Utilities	60,000	61,894	1,894
Insurance	150,000	99,059	(50,941)
Engineering	305,000	26,655	(278,345)
Severance tax	10,000	3,974	(6,026)
Contract compression	280,000	291,080	11,080
Other	188,600	213,201	24,601
Depreciation	440,000	455,128	15,128
<b>TOTAL OPERATING EXPENSES</b>	<b>15,244,500</b>	<b>8,379,428</b>	<b>(6,865,072)</b>
<b>OPERATING INCOME</b>	<b>2,496,200</b>	<b>2,391,720</b>	<b>(104,480)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	6,500	9,980	3,480
Interest expense	(28,118)	(29,498)	(1,380)
Gain (loss) on asset disposal	-	(9,189)	(9,189)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(21,618)</b>	<b>(28,707)</b>	<b>(7,089)</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>2,474,582</b>	<b>2,363,013</b>	<b>(111,569)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(2,451,500)	(2,451,500)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(2,451,500)</b>	<b>(2,451,500)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ 23,082</b>	<b>\$ (88,487)</b>	<b>\$ (111,569)</b>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the budget for the current year change in the net pension liability.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WATER DEPARTMENT**  
**for the year ended June 30, 2017**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 8,700,000	\$ 6,956,671	\$ (1,743,329)
Transportation/surcharges	65,000	85,957	20,957
Other operating revenues	5,000	10,600	5,600
<b>TOTAL OPERATING REVENUES</b>	<b>8,770,000</b>	<b>7,053,228</b>	<b>(1,716,772)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	1,281,000	321,391	(959,609)
Personnel services	1,475,300	1,494,994	19,694
Supplies	500,500	461,007	(39,493)
Utilities	850,000	790,938	(59,062)
Insurance	95,000	93,385	(1,615)
Engineering	38,000	41,975	3,975
Other	88,370	77,772	(10,598)
Amortization	9,022	9,022	-
Depreciation	1,400,000	1,419,010	19,010
<b>TOTAL OPERATING EXPENSES</b>	<b>5,737,192</b>	<b>4,709,494</b>	<b>(1,027,698)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>3,032,808</b>	<b>2,343,734</b>	<b>(689,074)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	17,000	19,837	2,837
Interest expense	(442,266)	(474,632)	(32,366)
Gain (loss) on asset disposal	-	18,393	18,393
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(425,266)</b>	<b>(436,402)</b>	<b>(11,136)</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>2,607,542</b>	<b>1,907,332</b>	<b>(700,210)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(1,803,008)	(1,803,008)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(1,803,008)</b>	<b>(1,803,008)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ 804,534</b>	<b>\$ 104,324</b>	<b>\$ (700,210)</b>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the budget for the current year change in the net pension liability.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WASTEWATER DEPARTMENT**  
**for the year ended June 30, 2017**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 3,060,000	\$ 2,756,128	\$ (303,872)
Transportation/surcharges	20,000	35,582	15,582
Other operating revenues	66,350	86,191	19,841
<b>TOTAL OPERATING REVENUES</b>	<b>3,146,350</b>	<b>2,877,901</b>	<b>(268,449)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	289,800	308,020	18,220
Personnel services	1,245,000	1,256,284	11,284
Supplies	15,750	19,527	3,777
Utilities	360,000	366,041	6,041
Insurance	65,000	70,153	5,153
Engineering	33,000	53,542	20,542
Treatment	90,000	86,851	(3,149)
Other	118,150	86,943	(31,207)
Depreciation	1,000,000	1,114,188	114,188
<b>TOTAL OPERATING EXPENSES</b>	<b>3,216,700</b>	<b>3,361,549</b>	<b>144,849</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(70,350)</b>	<b>(483,648)</b>	<b>(413,298)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	20,000	27,074	7,074
Interest expense	(208,271)	(206,862)	1,409
Gain (loss) on asset disposal	-	2,788	2,788
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(188,271)</b>	<b>(177,000)</b>	<b>11,271</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(258,621)</b>	<b>(660,648)</b>	<b>(402,027)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(151,500)	(151,500)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(151,500)</b>	<b>(151,500)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ (410,121)</b>	<b>\$ (812,148)</b>	<b>\$ (402,027)</b>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the budget for the current year change in the net pension liability.



**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**SANITATION DEPARTMENT**  
for the year ended June 30, 2017

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 3,175,000	\$ 3,611,842	\$ 436,842
Other operating revenues	50,000	52,235	2,235
<b>TOTAL OPERATING REVENUES</b>	<b>3,225,000</b>	<b>3,664,077</b>	<b>439,077</b>
<b>OPERATING EXPENSES</b>			
Maintenance	183,000	253,352	70,352
Personnel services	997,500	1,127,146	129,646
Supplies	169,500	190,782	21,282
Utilities	9,000	11,379	2,379
Insurance	40,000	44,348	4,348
Landfill	1,262,000	1,019,900	(242,100)
Other	33,000	41,360	8,360
Depreciation	115,000	110,453	(4,547)
<b>TOTAL OPERATING EXPENSES</b>	<b>2,809,000</b>	<b>2,798,720</b>	<b>(10,280)</b>
<b>OPERATING INCOME</b>	<b>416,000</b>	<b>865,357</b>	<b>449,357</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	3,500	4,916	1,416
Interest expense	(4,890)	(4,578)	312
Gain (loss) on asset disposal	-	(1,412)	(1,412)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(1,390)</b>	<b>(1,074)</b>	<b>316</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>414,610</b>	<b>864,283</b>	<b>449,673</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(339,500)	(339,500)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(339,500)</b>	<b>(339,500)</b>	<b>-</b>
<b>INCREASE IN NET POSITION</b>	<b>\$ 75,110</b>	<b>\$ 524,783</b>	<b>\$ 449,673</b>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the budget for the current year change in the net pension liability.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**INTERNAL SERVICE FUND**  
**for the year ended June 30, 2017**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING EXPENSES</b>			
Maintenance	\$ 9,000	\$ 593	\$ (8,407)
Personnel services	269,000	320,697	51,697
Postage	70,000	65,297	(4,703)
Other	59,000	38,131	(20,869)
Depreciation	-	1,158	1,158
<b>TOTAL OPERATING EXPENSES</b>	<b>407,000</b>	<b>425,876</b>	<b>18,876</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(407,000)</b>	<b>(425,876)</b>	<b>(18,876)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	1,000	482	(518)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>1,000</b>	<b>482</b>	<b>(518)</b>
<b>(LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(406,000)</b>	<b>(425,394)</b>	<b>(19,394)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	406,000	406,000	-
Transfers out	-	-	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>406,000</b>	<b>406,000</b>	<b>-</b>
<b>(DECREASE) IN NET POSITION</b>	<b>\$ -</b>	<b>\$ (19,394)</b>	<b>\$ (19,394)</b>

Note 1: Adjustments to account for the changes in the net pension liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension liability adjustments on expense, an amount was not included in the budget for the current year change in the net pension liability.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND 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 Somerset, 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 Somerset, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated November 20, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Somerset, Kentucky'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 of Somerset, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Somerset, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
November 20, 2017