

CITY OF SOMERSET
Somerset, Kentucky

FINANCIAL STATEMENTS
June 30, 2015

CONTENTS

Independent Auditors' Report	1-2	
Management's Discussion and Analysis	3-11	
Government Wide Financial Statements		
Statement of Net Position	12	
Statement of Activities	13	
Fund Financial Statements		
Balance Sheet – Governmental Funds	14	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15	
Statement of Net Position – Proprietary Funds	16	
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	17	
Statement of Cash Flows – Proprietary Funds	18	
Notes to Financial Statements	19-43	
Required Supplemental Information		
Required Supplemental Budgetary Comparison – General Fund	44	
Required Supplemental Budgetary Comparison – EMS Fund	45	
Required Supplemental Budgetary Comparison – Waterpark Fund	46	
Required Supplemental Budgetary Comparison – Fuel Center	47	
Pension – Proportionate Share of the Net Pension Liability – Nonhazardous	48	
Pension – Proportionate Share of the Net Pension Liability – Hazardous	49	
Pension – Schedule of Contributions – Nonhazardous	50	
Pension – Schedule of Contributions – Hazardous	51	
Supplemental Information		
Combining Balance Sheet – All Nonmajor Funds	52	
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – All Nonmajor Funds	53	
Statement of Revenues and Expenses – Budget to Actual		
Gas Department	54	
Water Department	55	
Wastewater Department	56	
Sanitation Department	57	
Internal Service Fund	58	
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 <i>Government Auditing Standards</i>		59-60
Single Audit Reporting		
Schedule of Expenditures of Federal Awards	61	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	62-63	
Schedule of Findings and Questioned Costs	64-66	



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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2015, 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 opinions.

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2015, 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 44-51 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, proprietary statements of revenues and expenses – budget to actual and the schedule of expenditures of federal awards 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 February 2, 2016, 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
February 2, 2016

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, 2015. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

* Total assets increased from \$145.72 million in 2014 to \$154.61 in 2015

- During the year, the City's business type activities generated net revenues of \$6.04 million which was primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$19 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. EMS and water park continue to generate less revenue than expenses. However, changes made after June 30, 2015, particularly at the water park, to decrease expenses and increase revenue will have a very positive financial impact for FY 2016.

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 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 three 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.
- **Component unit**-The City includes a separate legal entity in its report-Downtown Somerset Development Corporation. Although legally separate, this component unit is important because the City is financially accountable for them.

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 decreased from a year ago-decreasing from \$80.63 million to \$79.65 million. 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	
	2015	2014	2015	2014	2015	2014
Current & Other Assets	\$ 3.85	\$ 3.89	\$ 23.14	\$ 25.80	\$ 26.99	\$ 29.69
Capital Assets	34.53	30.76	91.27	90.70	125.80	121.46
Deferred Outflows	<u>1.35</u>	<u>1.37</u>	<u>.47</u>	<u>.46</u>	<u>1.82</u>	<u>1.83</u>
Total Assets and Deferred Outflows	<u>39.73</u>	<u>36.02</u>	<u>114.88</u>	<u>116.96</u>	<u>154.61</u>	<u>152.98</u>
Other Liabilities	3.40	6.03	2.82	4.77	6.22	10.80
Long Term Liabilities	31.43	25.35	35.69	36.20	67.12	61.55
Deferred Inflows	<u>1.20</u>	<u>-</u>	<u>.42</u>	<u>-</u>	<u>1.62</u>	<u>-</u>
Total Liabilities/Deferred Inflows	<u>36.03</u>	<u>31.38</u>	<u>38.93</u>	<u>40.97</u>	<u>74.96</u>	<u>72.35</u>
Investment in Capital Assets, Net of Debt	17.11	21.84	58.95	58.68	76.06	80.52
Restricted	5.11	-	1.51	4.93	6.62	4.93
Unrestricted, restated	<u>(18.52)</u>	<u>(17.2)</u>	<u>15.49</u>	<u>12.38</u>	<u>(3.03)</u>	<u>(4.82)</u>
Total Net Position	<u>\$ 3.70</u>	<u>\$ 4.64</u>	<u>\$ 75.95</u>	<u>\$ 75.99</u>	<u>\$ 79.65</u>	<u>\$ 80.63</u>

Net position of the City's governmental activities decreased \$.94 million from a year ago. 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, decreased from (\$17.2) million at June 30, 2014 to (\$18.52) million at the end of this year.

The net position of our business-type activities was relatively unchanged decreasing from \$75.99 million at June 30, 2014 to \$75.95 million at the end of this year.

Total assets and deferred outflows increased from \$152.98 million at June 30, 2014 to \$154.61 million at June 30, 2015.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program Revenues						
Charges for Services	\$ 6.83	\$ 4.58	\$ 24.43	\$ 23.97	\$ 31.26	\$ 28.55
Federal & State Grants	2.08	2.06	1.45	5.54	3.53	7.60
General Revenues						
Property Taxes	1.21	1.32	-	-	1.21	1.32
Other Taxes and License Fees	5.7	4.10	-	-	5.7	4.10
Other General Revenues	<u>.40</u>	<u>1.15</u>	<u>.05</u>	<u>0.07</u>	<u>.45</u>	<u>1.22</u>
Total Revenues	<u>\$ 16.22</u>	<u>\$ 13.21</u>	<u>\$ 25.93</u>	<u>\$ 29.58</u>	<u>\$ 42.15</u>	<u>\$ 42.79</u>
Program Expenses						
General Government	3.48	3.58	-	-	3.48	3.58
Public Safety	5.64	5.93	-	-	5.64	5.93
Public Services	.37	0.34	-	-	.37	0.34
Streets	2.02	1.49	-	-	2.02	1.49
Parks and Recreation	1.37	1.32	-	-	1.37	1.32
Emergency Medical Services	4.61	4.78	-	-	4.61	4.78
Cemetery	.18	0.07	-	-	.18	0.07
Fuel Center	2.48	0.26	-	-	2.48	0.26
Waterpark	2.30	2.27	-	-	2.30	2.27
Economic Development	-	0.10	-	-	-	0.10
Travel & Tourism	.13	0.06	-	-	.13	0.06
Intergovernmental Programs	.13	0.15	-	-	.13	0.15
Downtown Revitalization	.14	0.19	-	-	.14	0.19
Debt Service – Interest	.35	0.26	-	-	.35	0.26
Gas	-	-	8.75	9.46	8.75	9.46
Water	-	-	5.15	4.83	5.15	4.83
Wastewater	-	-	3.45	3.10	3.45	3.10
Sanitation	<u>-</u>	<u>-</u>	<u>2.49</u>	<u>2.42</u>	<u>2.49</u>	<u>2.42</u>
Total Expense	<u>\$ 23.20</u>	<u>\$ 20.80</u>	<u>\$ 19.84</u>	<u>\$ 19.81</u>	<u>\$ 43.04</u>	<u>\$ 40.61</u>
(Loss) on disposal of capital assets	(0.07)	-	(0.02)	-	(.09)	-
Excess (Deficiency) before Transfer	(7.05)	(7.59)	6.07	9.77	(.98)	2.18
Transfer	<u>6.11</u>	<u>5.14</u>	<u>(6.11)</u>	<u>(5.14)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(.94)	(2.45)	(.04)	4.63	(.98)	2.18
Net Position, beginning, restated	<u>4.64</u>	<u>7.09</u>	<u>75.99</u>	<u>71.36</u>	<u>80.63</u>	<u>78.45</u>
Net Position, ending	<u>\$ 3.70</u>	<u>\$ 4.64</u>	<u>\$ 75.95</u>	<u>\$ 75.99</u>	<u>\$ 79.65</u>	<u>\$ 80.63</u>

Management's Discussion and Analysis, Continued

The City's total revenues decreased by \$.64 million. The total cost of all programs and services increased by \$2.58 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 \$23.20 million compared to \$20.80 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2015 from \$4.58 million to \$6.83 million. The City paid for the remaining "public benefit" portion of governmental activities with \$6.91 million in taxes and license fees, \$2.08 million in grants and entitlements, \$.4 million of other revenues, and \$6.11 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 fuel center-as well as each program's net cost (total cost less revenues generated by the activities). The net cost 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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Emergency Medical Services	\$ 4.61	\$ 4.78	\$ 0.37	\$ 0.31
Police and Fire Department	5.65	5.93	5.30	5.61
Streets	2.03	1.49	1.72	1.24
Waterpark	2.30	2.21	1.19	1.20
Fuel Center	2.49	.26	.1	.23
All Others	<u>6.14</u>	<u>6.05</u>	<u>5.63</u>	<u>5.50</u>
Totals	<u>\$ 23.22</u>	<u>\$ 20.72</u>	<u>\$ 14.31</u>	<u>\$ 14.09</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) decreased by \$3.65 million (\$25.93 million in 2015 compared to \$29.58 million in 2014) and expenses increased by \$0.03 million (\$19.84 million in 2015 compared to \$19.81 million in 2014). The factors driving these results include:

- The major decrease in revenue for this fiscal year is due to the City not receiving as much Federal & State Grants. 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 governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$1.22 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget to adjust between expense categories in various funds. These budget amendments did not change the originally budgeted net income of any fund.

For the General Fund, actual revenues were \$0.70 million more than the \$6.68 million budgeted, while actual expenditures were \$0.62 million more than the expected \$12.20 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had \$125.49 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.) This amount represents a net increase (including additions and deductions) of approximately \$4.33 million, over last year.

Management's Discussion and Analysis, Continued

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 2.15	\$ 2.01	\$.90	\$ 0.83	\$ 3.05	\$ 2.84
Right of Way and Easements	0.01	0.01	.12	0.12	0.13	0.13
Construction in Progress	6.01	0.73	2.95	1.59	8.96	2.32
Infrastructure	17.12	18.14	-	-	17.12	18.14
Utility Plant and Distribution System	-	-	46.75	47.62	46.75	47.62
Buildings and Improvements	6.97	7.14	38.95	38.64	45.92	45.78
Vehicles	1.14	1.32	0.73	0.86	1.87	2.18
Equipment	.57	.71	0.44	0.59	1.01	1.30
Office Equipment	.10	.17	0.40	0.43	0.50	0.60
Land Improvements	.45	.53	0.02	0.02	0.47	0.55
Total	<u>\$ 34.52</u>	<u>\$ 30.76</u>	<u>\$ 91.26</u>	<u>\$ 90.07</u>	<u>\$ 125.78</u>	<u>\$ 121.46</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Marydale Project was completed in the current year and has been renamed Bourne Park. The Energy Center project has begun the construction phase with funding through USDA. 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

At year-end, the City had \$69.17 million in long term debt versus \$61.16 million last year as shown in Table 5.

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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Short-Term Financing	\$ -	\$ -	\$ -	\$ 0.52	\$ -	\$ 0.52
Long-Term Debt	17.41	8.91	32.31	31.79	49.72	40.70
Net Pension Liability	<u>14.72</u>	<u>15.06</u>	<u>4.73</u>	<u>4.88</u>	<u>19.45</u>	<u>19.94</u>
Totals	<u>\$ 32.13</u>	<u>\$ 23.97</u>	<u>\$ 37.04</u>	<u>\$ 37.19</u>	<u>\$ 69.17</u>	<u>\$ 61.16</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.

Work has continued on the Midtown Sanitary Sewer Upgrade Project. The estimated cost of construction is \$3.1 million. The City received \$1.8 million in EDA grants for this project and the City will use \$1.3 million in local funds. This project is estimated to be completed by December of 2015.

The City is looking at interest rates on current bond issues. Plans are 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, 400 E. Mt. Vernon, Somerset, Kentucky.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,162,388	\$ 5,285,015	\$ 7,447,403	\$ 59,742
Certificates of deposit	1,006,914	4,900,120	5,907,034	117,804
Receivables (net)	2,224,699	3,042,488	5,267,187	-
Accrued interest receivable	719	2,241	2,960	-
Inventories	117,312	831,477	948,789	-
Prepaid expenses	130,976	56,531	187,507	3,293
Internal balances, net	(6,910,176)	6,910,176	-	-
Due from component unit	4,496	-	4,496	(995)
Total current assets	(1,262,672)	21,028,048	19,765,376	179,844
Noncurrent assets				
Restricted cash and cash equivalents	5,116,967	1,256,498	6,373,465	-
Restricted certificates of deposit	-	759,830	759,830	-
Excess cost over market value of assets acquired, net	-	96,301	96,301	-
Property, Plant, and Equipment				
Nondepreciable property, plant and equipment	8,167,483	3,979,336	12,146,819	334,820
Depreciable property, plant and equipment, net	26,359,719	87,286,526	113,646,245	183,433
Total noncurrent assets	39,644,169	93,378,491	133,022,660	518,253
Total assets	38,381,497	114,406,539	152,788,036	698,097
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	1,351,107	455,973	1,807,080	-
Defeasance on refunding	-	11,307	11,307	-
Total assets and deferred outflows of resources	\$ 39,732,604	\$ 114,873,819	\$ 154,606,423	\$ 698,097
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,235,282	\$ 804,585	\$ 2,039,867	\$ 2,043
Accrued interest payable	63,532	172,072	235,604	-
Other current liabilities	1,397,817	483,960	1,881,777	4,800
Current portion of long-term debt	700,000	1,360,514	2,060,514	-
Total current liabilities	3,396,631	2,821,131	6,217,762	6,843
Noncurrent liabilities				
Notes payable	9,350,000	7,402,374	16,752,374	-
Bonds payable	7,364,639	23,551,472	30,916,111	-
Net pension liability	14,718,621	4,729,564	19,448,185	-
Total noncurrent liabilities	31,433,260	35,683,410	67,116,670	-
Total liabilities	34,829,891	38,504,541	73,334,432	6,843
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	1,196,068	422,332	1,618,400	-
NET POSITION				
Net invested in capital assets	17,112,563	58,951,502	76,064,065	518,253
Restricted for				
Debt service	116,875	1,513,546	1,630,421	-
Construction	5,000,092	502,782	5,502,874	-
Unrestricted	(18,522,885)	14,979,116	(3,543,769)	173,001
Total net position	3,706,645	75,946,946	79,653,591	691,254
Total liabilities, deferred inflows of resources and net position	\$ 39,732,604	\$ 114,873,819	\$ 154,606,423	\$ 698,097

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 3,487,081	\$ -	\$ -	\$ -	\$ (3,487,081)	\$ -	\$ (3,487,081)	\$ -
Public safety	5,654,279	-	353,719	-	(5,300,560)	-	(5,300,560)	-
Public services	380,698	-	-	-	(380,698)	-	(380,698)	-
Streets	2,025,363	-	304,160	-	(1,721,203)	-	(1,721,203)	-
Parks and recreation	1,369,401	145,478	-	-	(1,223,923)	-	(1,223,923)	-
Emergency medical services	4,613,162	3,151,486	1,424,600	-	(37,076)	-	(37,076)	-
Cemetery	118,306	34,646	-	-	(83,660)	-	(83,660)	-
Waterpark	2,296,384	1,105,793	-	-	(1,190,591)	-	(1,190,591)	-
Fuel Center	2,488,499	2,388,290	-	-	(100,209)	-	(100,209)	-
Travel and tourism	143,954	-	-	-	(143,954)	-	(143,954)	-
Intergovernmental programs	127,506	-	-	-	(127,506)	-	(127,506)	-
Downtown revitalization	144,430	-	-	-	(144,430)	-	(144,430)	-
Interest on long-term debt	<u>364,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(364,290)</u>	<u>-</u>	<u>(364,290)</u>	<u>-</u>
Total governmental activities	<u>23,213,353</u>	<u>6,825,693</u>	<u>2,082,479</u>	<u>-</u>	<u>(14,305,181)</u>	<u>-</u>	<u>(14,305,181)</u>	<u>-</u>
Business-type activities								
Gas Department	8,755,700	12,677,436	-	-	-	3,921,737	3,921,737	-
Water Department	5,155,997	6,659,637	-	476,056	-	1,979,697	1,979,697	-
Wastewater Department	3,448,633	2,381,168	-	978,866	-	(88,599)	(88,599)	-
Sanitation Department	<u>2,488,952</u>	<u>2,716,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>227,405</u>	<u>227,405</u>	<u>-</u>
Total business-type activities	<u>19,849,280</u>	<u>24,434,597</u>	<u>-</u>	<u>1,454,922</u>	<u>-</u>	<u>6,040,239</u>	<u>6,040,239</u>	<u>-</u>
Total primary government	<u>\$ 43,062,633</u>	<u>\$ 31,260,290</u>	<u>\$ 2,082,479</u>	<u>\$ 1,454,922</u>	<u>(14,305,181)</u>	<u>6,040,239</u>	<u>(8,264,943)</u>	<u>-</u>
Component Unit								
Downtown Development Corporation	<u>\$ 159,966</u>	<u>\$ 33,900</u>	<u>\$ 147,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,064</u>
General revenues								
Taxes:								
Property taxes					1,208,135	-	1,208,135	-
Transient room tax					234,785	-	234,785	-
License fees:								-
Franchise					837,988	-	837,988	-
Business					272,816	-	272,816	-
Insurance premiums					1,624,927	-	1,624,927	-
Occupational					2,016,951	-	2,016,951	-
ABC					700,063	-	700,063	-
Permits:								-
Building					7,193	-	7,193	-
Planning & Zoning					2,814	-	2,814	-
Storm Water					2,350	-	2,350	-
Investment earnings					16,752	49,312	66,064	480
Miscellaneous					<u>402,197</u>	<u>-</u>	<u>402,197</u>	<u>-</u>
Total general revenues					7,326,971	49,312	7,376,283	480
(Loss) on disposal of capital assets					(65,572)	(22,973)	(88,545)	-
Transfers in (out)					<u>6,107,991</u>	<u>(6,107,991)</u>	<u>-</u>	<u>-</u>
Change in Net Position					(935,791)	(41,413)	(977,205)	21,544
Net position-beginning, as restated					<u>4,642,436</u>	<u>75,988,359</u>	<u>80,630,795</u>	<u>669,710</u>
NET POSITION-ENDING					\$ 3,706,645	\$ 75,946,946	\$ 79,653,591	\$ 691,254

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

CITY OF SOMERSET, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 664,906	\$ 37,624	\$ 176,012	\$ 358,688	\$ -	\$ 925,158	\$ 2,162,388
Certificates of deposit	1,006,914	-	-	-	-	-	1,006,914
Receivables, net	1,389,994	723,483	14,822	20,359	-	76,041	2,224,699
Interest receivable	719	-	-	-	-	-	719
Inventories	11,945	-	21,824	75,321	-	8,222	117,312
Prepaid expenses	86,243	32,687	1,882	476	-	9,688	130,976
Due from other funds	4,849,906	4,328	18,041	59,454	-	50,512	4,982,241
Due from component unit	4,496	-	-	-	-	-	4,496
Restricted cash	79,416	-	-	-	5,037,551	-	5,116,967
Total assets	<u>\$ 8,094,539</u>	<u>\$ 798,122</u>	<u>\$ 232,581</u>	<u>\$ 514,298</u>	<u>\$ 5,037,551</u>	<u>\$ 1,069,621</u>	<u>\$ 15,746,712</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 180,530	\$ 11,256	\$ 32,110	\$ 294,001	\$ 699,813	\$ 17,572	\$ 1,235,282
Due to other funds	6,470,915	372,017	4,727,506	6,181	-	315,798	11,892,417
Other current liabilities	572,293	209,897	114,582	4,039	442,500	54,506	1,397,817
Total liabilities	<u>7,223,738</u>	<u>593,170</u>	<u>4,874,198</u>	<u>304,221</u>	<u>1,142,313</u>	<u>387,876</u>	<u>14,525,516</u>
Fund balances							
Nonspendable	98,188	32,687	23,706	75,797	-	17,910	248,288
Restricted	-	-	-	-	3,895,238	507,422	4,402,660
Committed	79,416	-	-	-	-	333,220	412,636
Assigned	-	172,265	-	-	-	-	172,265
Unassigned	693,197	-	(4,665,323)	134,280	-	(176,807)	(4,014,653)
Total fund balances	<u>870,801</u>	<u>204,952</u>	<u>(4,641,617)</u>	<u>210,077</u>	<u>3,895,238</u>	<u>681,745</u>	<u>1,221,196</u>
Total liabilities and fund balances	<u>\$ 8,094,539</u>	<u>\$ 798,122</u>	<u>\$ 232,581</u>	<u>\$ 514,298</u>	<u>\$ 5,037,551</u>	<u>\$ 1,069,621</u>	<u>\$ 15,746,712</u>

Amounts reported for *governmental activities* in the statement

of net position are different because :

Fund balances reported above	\$ 1,221,196
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,527,202
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(63,532)
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	155,039
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.	(32,133,260)
Net position of governmental activities	<u>\$ 3,706,645</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, 2015

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 1,208,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,208,135
Licenses and permits	5,465,102	-	-	-	-	-	5,465,102
Fines and forfeits	113,885	-	-	-	-	-	113,885
Charges for services	-	3,151,486	1,105,793	2,388,290	-	180,124	6,825,693
Intergovernmental	353,719	1,424,600	-	-	-	538,945	2,317,264
Interest income	11,595	743	379	812	-	3,223	16,752
Other revenues	228,740	22,153	15,154	-	-	22,267	288,314
Total revenues	7,381,176	4,598,982	1,121,326	2,389,102	-	744,559	16,235,145
EXPENDITURES							
Current:							
General administration	3,374,809	-	-	-	-	-	3,374,809
Public safety	5,641,551	-	-	-	-	-	5,641,551
Public services	380,698	-	-	-	-	-	380,698
Streets	1,307,328	-	-	-	-	171,103	1,478,431
Parks and recreation	-	-	-	-	-	1,308,036	1,308,036
Emergency medical services	-	4,612,181	-	-	-	-	4,612,181
Cemetery	-	-	-	-	-	117,253	117,253
Waterpark	-	-	1,589,876	-	-	-	1,589,876
Fuel center	-	-	-	2,459,882	-	-	2,459,882
Travel and tourism	-	-	-	-	-	144,094	144,094
Downtown revitalization	144,430	-	-	-	-	-	144,430
Intergovernmental programs	131,499	-	-	-	-	-	131,499
Capital outlay	203,462	136,963	-	62,359	5,058,266	345,392	5,806,442
Debt service	1,077,736	-	64,604	-	42,824	-	1,185,164
Total expenditures	12,261,513	4,749,144	1,654,480	2,522,241	5,101,090	2,085,878	28,374,346
Excess (deficiency) of revenues over expenditures	(4,880,337)	(150,162)	(533,154)	(133,139)	(5,101,090)	(1,341,319)	(12,139,201)
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of assets	33,516	-	-	-	-	-	33,516
Financing proceeds	-	-	-	-	9,350,000	-	9,350,000
Transfers in (out)	4,331,223	(25,000)	456,250	150,000	(353,672)	1,520,500	6,079,301
Total other financing sources and uses	4,364,739	(25,000)	456,250	150,000	8,996,328	1,520,500	15,462,817
Net change in fund balances	(515,598)	(175,162)	(76,904)	16,861	3,895,238	179,181	3,323,616
Fund balances-beginning	1,386,399	380,114	(4,564,713)	193,216	-	502,564	(2,102,420)
Fund balances-ending	\$ 870,801	\$ 204,952	\$ (4,641,617)	\$ 210,077	\$ 3,895,238	\$ 681,745	\$ 1,221,196

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ 3,323,616
add: capital outlay expenditures capitalized	5,806,442
add: debt service expenditures	1,185,164
add: capital asset transfers	28,690
less: proceeds from sale of assets	(33,516)
less: financing proceeds	(9,350,000)
gain (loss) on disposal of capital assets	(65,572)
less: depreciation on governmental activities assets	(1,966,826)
change in net pension liability	500,501
less: interest on long term debt	(364,290)
Change in net position Governmental Activities	\$ (935,791)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-Type Activities					Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Total	
ASSETS						
Current assets						
Cash and cash equivalents	\$ 2,937,559	\$ 912,176	\$ 370,246	\$ 898,657	\$ 5,118,638	\$ 166,377
Certificates of deposit	-	500,000	3,800,073	600,047	4,900,120	-
Receivables (net)	1,123,399	609,074	936,224	370,443	3,039,140	3,348
Accrued interest receivable	-	250	1,749	242	2,241	-
Inventories	361,825	396,754	72,898	-	831,477	-
Prepaid expenses	14,193	14,516	13,841	10,858	53,408	3,123
Due from other funds	<u>1,503,654</u>	<u>5,375,439</u>	<u>926,781</u>	<u>6,292</u>	<u>7,812,166</u>	<u>-</u>
Total current assets	<u>5,940,630</u>	<u>7,808,209</u>	<u>6,121,812</u>	<u>1,886,539</u>	<u>21,757,190</u>	<u>172,848</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	1,255,041	1,457	-	1,256,498	-
Restricted certificates of deposit	-	759,830	-	-	759,830	-
Excess cost over market value of assets acquired, net	-	96,301	-	-	96,301	-
Property, Plant and Equipment						
Nondepreciable property, plant and equipment	358,144	643,710	2,977,482	-	3,979,336	-
Depreciable property, plant and equipment	26,438,468	68,168,971	42,618,702	2,097,738	139,323,879	16,772
Less accumulated depreciation	<u>(18,418,774)</u>	<u>(16,003,562)</u>	<u>(16,108,376)</u>	<u>(1,509,730)</u>	<u>(52,040,442)</u>	<u>(13,683)</u>
Total noncurrent assets	<u>8,377,838</u>	<u>54,920,291</u>	<u>29,489,265</u>	<u>588,008</u>	<u>93,375,402</u>	<u>3,089</u>
Total assets	<u>14,318,468</u>	<u>62,728,500</u>	<u>35,611,077</u>	<u>2,474,547</u>	<u>115,132,592</u>	<u>175,937</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	120,736	131,993	105,920	75,259	433,908	22,065
Defeasance on refunding	-	11,307	-	-	11,307	-
Total deferred outflows of resources	<u>120,736</u>	<u>143,300</u>	<u>105,920</u>	<u>75,259</u>	<u>445,215</u>	<u>22,065</u>
Total assets and deferred outflows of resources	<u>\$ 14,439,204</u>	<u>\$ 62,871,800</u>	<u>\$ 35,716,997</u>	<u>\$ 2,549,806</u>	<u>\$ 115,577,807</u>	<u>\$ 198,002</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 266,889	\$ 61,174	\$ 342,785	\$ 98,915	\$ 769,763	\$ 34,822
Due to other funds	294,095	230,506	212,568	137,575	874,744	27,246
Accrued interest payable	4,881	148,375	18,816	-	172,072	-
Other current liabilities	137,484	104,490	147,380	78,896	468,250	15,710
Current portion of long-term debt	<u>1,437</u>	<u>751,500</u>	<u>607,577</u>	<u>-</u>	<u>1,360,514</u>	<u>-</u>
Total current liabilities	<u>704,786</u>	<u>1,296,045</u>	<u>1,329,126</u>	<u>315,386</u>	<u>3,645,343</u>	<u>77,778</u>
Noncurrent liabilities						
Notes payable	816,926	4,340,000	2,245,448	-	7,402,374	-
Revenue bonds payable	-	14,717,893	8,833,579	-	23,551,472	-
Net pension liability	<u>1,252,325</u>	<u>1,369,096</u>	<u>1,098,648</u>	<u>780,625</u>	<u>4,500,694</u>	<u>228,870</u>
Total noncurrent liabilities	<u>2,069,251</u>	<u>20,426,989</u>	<u>12,177,675</u>	<u>780,625</u>	<u>35,454,540</u>	<u>228,870</u>
Total liabilities	<u>2,774,037</u>	<u>21,723,034</u>	<u>13,506,801</u>	<u>1,096,011</u>	<u>39,099,883</u>	<u>306,648</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pension	111,828	122,255	98,105	69,707	401,895	20,437
NET POSITION						
Net invested in capital assets	7,559,475	33,096,027	17,801,204	588,008	59,044,714	3,089
Restricted for debt service	-	1,513,546	-	-	1,513,546	-
Restricted for construction	-	501,325	1,457	-	502,782	-
Unrestricted	<u>3,993,864</u>	<u>5,915,613</u>	<u>4,309,430</u>	<u>796,080</u>	<u>15,014,987</u>	<u>(132,172)</u>
Total net position	<u>11,553,339</u>	<u>41,026,511</u>	<u>22,112,091</u>	<u>1,384,088</u>	<u>76,076,029</u>	<u>(129,083)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,439,204</u>	<u>\$ 62,871,800</u>	<u>\$ 35,716,997</u>	<u>\$ 2,549,806</u>	<u>\$ 115,577,807</u>	<u>\$ 198,002</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, 2015

	Business-Type Activities					Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Total	
Operating revenues						
Sales to customers	\$ 10,091,356	\$ 6,602,860	\$ 2,306,266	\$ 2,707,421	\$ 21,707,903	\$ -
Transportation/surcharges	1,951,139	52,191	19,497	-	2,022,827	-
Other operating revenues	634,941	4,586	55,405	8,935	703,867	-
Total operating revenues	12,677,436	6,659,637	2,381,168	2,716,356	24,434,597	-
Operating expenses						
Gas purchases, net of refunds	5,405,181	-	-	-	5,405,181	-
Other operating expenses	2,223,122	2,914,656	1,844,263	2,129,417	9,111,458	376,622
Maintenance	542,577	244,448	278,925	176,809	1,242,759	7,922
Depreciation	452,854	1,385,275	1,035,424	86,107	2,959,660	1,930
Amortization	-	9,022	-	-	9,022	-
Total operating expenses	8,623,734	4,553,401	3,158,612	2,392,333	18,728,080	386,474
Operating income (loss)	4,053,702	2,106,236	(777,444)	324,023	5,706,517	(386,474)
Nonoperating revenues (expenses)						
Interest and investment revenue	6,526	17,583	20,773	3,357	48,239	1,073
Interest expense	(35,347)	(505,977)	(193,402)	-	(734,726)	-
Gain (loss) on sale of capital assets	(24,973)	-	2,000	-	(22,973)	-
Total nonoperating revenues (expenses)	(53,794)	(488,394)	(170,629)	3,357	(709,460)	1,073
Income before capital contributions and transfers	3,999,908	1,617,842	(948,073)	327,380	4,997,057	(385,401)
Transfers in (out)	(2,769,842)	(3,176,001)	(150,501)	(395,651)	(6,491,995)	384,004
Capital contributions						
Grant revenues	-	476,056	978,866	-	1,454,922	-
Change in net position	1,230,066	(1,082,103)	(119,708)	(68,271)	(40,016)	(1,397)
Total net position-beginning, as restated	10,323,273	42,108,614	22,231,799	1,452,359	76,116,045	(127,686)
TOTAL NET POSITION-ENDING	\$ 11,553,339	\$ 41,026,511	\$ 22,112,091	\$ 1,384,088	\$ 76,076,029	\$ (129,083)

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, 2015

	Business-Type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 11,452,057	\$ 7,814,344	\$ 2,672,661	\$ 2,627,408	\$ 24,566,470	\$ 16,614
Cash payments to suppliers for goods and services	(7,242,859)	(3,882,360)	(1,805,509)	(1,243,559)	(14,174,287)	(109,594)
Cash payments to employees	(1,383,239)	(1,502,499)	(1,204,778)	(971,553)	(5,062,069)	(253,759)
Other operating revenues	634,941	4,586	55,405	8,935	703,867	-
Net cash provided (used) by operating activities	<u>3,460,900</u>	<u>2,434,071</u>	<u>(282,221)</u>	<u>421,231</u>	<u>6,033,981</u>	<u>(346,739)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Transfers (to) from other funds	(2,769,842)	(3,176,001)	(150,501)	(370,301)	(6,466,645)	384,004
Net cash provided (used) by non-capital financing activities	<u>(2,769,842)</u>	<u>(3,176,001)</u>	<u>(150,501)</u>	<u>(370,301)</u>	<u>(6,466,645)</u>	<u>384,004</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on bonds and notes	(1,408)	(731,000)	(2,527,789)	-	(3,260,197)	-
Interest paid on bonds and notes	(28,087)	(366,200)	(183,140)	-	(577,427)	-
Proceeds from issuance of debt	-	-	3,458,010	-	3,458,010	-
Acquisition and construction of capital assets	(405,128)	(1,276,371)	(1,905,066)	-	(3,586,565)	-
Contributed capital	-	476,056	978,866	-	1,454,922	-
Net cash (used) by capital and related financing activities	<u>(434,623)</u>	<u>(1,897,515)</u>	<u>(179,119)</u>	<u>-</u>	<u>(2,511,257)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	6,526	17,583	20,773	3,357	48,239	1,073
Net cash provided by investing activities	<u>6,526</u>	<u>17,583</u>	<u>20,773</u>	<u>3,357</u>	<u>48,239</u>	<u>1,073</u>
Net increase (decrease) in cash and cash equivalents	262,961	(2,621,862)	(591,068)	54,287	(2,895,682)	38,338
Balances-beginning of the year	<u>2,674,598</u>	<u>4,789,079</u>	<u>962,771</u>	<u>844,370</u>	<u>9,270,818</u>	<u>128,039</u>
BALANCES-END OF THE YEAR	<u>\$ 2,937,559</u>	<u>\$ 2,167,217</u>	<u>\$ 371,703</u>	<u>\$ 898,657</u>	<u>\$ 6,375,136</u>	<u>\$ 166,377</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 4,053,702	\$ 2,106,236	\$ (777,444)	\$ 324,023	\$ 5,706,517	\$ (386,474)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	452,854	1,385,275	1,035,424	86,107	2,959,660	1,930
Amortization expense	-	9,022	-	-	9,022	-
Change in assets and liabilities						
Receivables, net	(590,449)	1,159,302	346,898	(80,013)	835,738	16,613
Inventory	(21,045)	31,447	1,892	-	12,294	-
Prepaid expenses	(3,371)	(265)	(5,247)	(1,943)	(10,826)	(445)
Due to/from other funds	(499,588)	(801,677)	(670,939)	10,602	(1,961,602)	-
Accounts payable	(60,549)	(693,000)	(195,947)	3,865	(945,631)	5,493
Due to other funds	153,307	(237,657)	57,849	69,410	42,909	18,424
Other liabilities	24,546	(471,586)	(32,156)	39,414	(439,782)	6,584
Net pension liability	(48,507)	(53,026)	(42,551)	(30,234)	(174,318)	(8,864)
Net cash provided (used) by operating activities	<u>\$ 3,460,900</u>	<u>\$ 2,434,071</u>	<u>\$ (282,221)</u>	<u>\$ 421,231</u>	<u>\$ 6,033,981</u>	<u>\$ (346,739)</u>
Supplemental disclosure of cash flow information:						
Cash paid for interest	<u>\$ 28,087</u>	<u>\$ 366,200</u>	<u>\$ 183,140</u>	<u>\$ -</u>	<u>\$ 577,427</u>	<u>\$ -</u>

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

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Somerset, Kentucky (the City), a city of the third class, 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 and component units 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.

Downtown Somerset Development Corporation was evaluated and included as a discretely presented component unit due to the amount of grant funds received from the City of Somerset (80% of total revenues and transfers in 2015) and the fact that the Corporation serves the City of Somerset area, exclusively.

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 and its component unit. For the most part, the effect of inter-fund 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, 2015

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, reserves, fund equity, 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, 2015

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.

Special Revenue - The EMS Fund is 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.

Special Revenue - The Waterpark Fund is 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 – The Fuel Center Fund is 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.

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, 2015

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 types:

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, 2015

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.

	General	EMS Fund	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:							
Inventory	\$ 11,945	\$ -	\$ 21,824	\$ 75,321	\$ -	\$ 8,222	\$ 117,312
Prepays	86,243	32,687	1,882	476	-	9,688	130,976
Restricted	-	-	-	-	3,895,238	507,422	4,402,660
Committed	79,416	-	-	-	-	333,220	412,636
Assigned	-	172,265	-	-	-	-	172,265
Unassigned	<u>693,197</u>	<u>-</u>	<u>(4,665,323)</u>	<u>134,280</u>	<u>-</u>	<u>(176,807)</u>	<u>(4,014,653)</u>
Total	<u>\$ 870,801</u>	<u>\$ 204,952</u>	<u>\$ (4,641,617)</u>	<u>\$ 210,077</u>	<u>\$ 3,895,238</u>	<u>\$ 681,745</u>	<u>\$ 1,221,196</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 Equity

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.

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."

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Net Position or Equity (continued)

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.

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 ten thousand dollars for assets other than Building/Land Improvements and Infrastructure. The capitalization threshold for Buildings and Building Improvements is \$50,000 and for Utility Line and 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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Net Position or Equity (continued)

Capital Assets and Depreciation (continued)

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

Description	Years
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.

Long-Term Debt and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the related debt. In the fund financial statements, governmental fund types recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

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 cash 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.

During the year the City under budgeted revenues in the Fuel Center by \$2,233,302 and under budgeted expenditures by \$2,229,441. In addition – general government, streets, public services, and emergency medical services under budgeted expenditures.

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.

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.

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.

Encumbrances

Encumbrance accounting is used by the City whereby purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances or retained earnings in the general, special revenue and enterprise funds, since the encumbrances do not constitute expenditures or liabilities, even though the City intends to honor those commitments.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Other Accounting Policies (continued)

Reclassifications

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on change in net position or fund balances as previously reported.

I. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through February 2, 2016, 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, 2015, have not been evaluated by the City.

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 at June 30, 2015 are as follows:

Carrying amount	\$ 20,665,278
Bank balance	\$ 22,440,684
FDIC Insurance	\$ 2,962,289
Bank Deposit Guaranty Bond	\$ 1,013,906
Uninsured and collateral held by the pledging financial institution's trust department or agent and pledged to the City, but not in the depositor-government's name	\$ 18,085,297
Uninsured and uncollateralized	\$ 379,192

Subsequent to year end, the City has coordinated with custodial banks to ensure that sufficient collateral has been pledged to secure the City's deposits.

Investments at June 30, 2015 were all certificates of deposit or money market accounts in local financial institutions.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2015 for all funds of the City are as follows:

	Accounts	Taxes	Occupational License	Grants	Other	Allowance	Total
General Fund	\$ -	\$ 44,414	\$ 1,160,923	\$ 39,821	\$ 144,836	\$ -	\$ 1,389,994
EMS Fund	2,862,252	-	-	-	-	(2,138,769)	723,483
Fuel Center	-	-	-	-	20,359	-	20,359
Waterpark	14,822	-	-	-	-	-	14,822
Other Gov.	-	-	-	-	76,041	-	76,041
Internal Serv.	-	-	-	-	3,348	-	3,348
Gas	1,162,974	-	-	-	-	(39,575)	1,123,399
Water	621,123	-	-	-	-	(12,049)	609,074
Wastewater	344,155	-	-	592,069	-	-	936,224
Sanitation	<u>371,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,401)</u>	<u>370,443</u>
Totals	<u>\$ 5,377,170</u>	<u>\$ 44,414</u>	<u>\$ 1,160,923</u>	<u>\$ 631,890</u>	<u>\$ 244,584</u>	<u>\$ (2,191,794)</u>	<u>\$ 5,267,187</u>

4. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2015 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, 2015 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Gas Department	\$ 229,716
General Fund	Water Department	225,180
General Fund	Wastewater Department	175,063
General Fund	Sanitation Department	130,689
General Fund	Internal Service Fund	16,222
EMS Fund	Sanitation Department	67
Waterpark	Sanitation Department	1,135
Fuel Center Fund	Gas Department	2,367
Fuel Center Fund	Water Department	2,547
Fuel Center Fund	Wastewater Department	2,915
Fuel Center Fund	Sanitation Department	5,518
Gas Department	General Fund	(1,499,837)
Gas Department	Fuel Center Fund	(48)
Gas Department	Waterpark	(48)
Water Department	General Fund	(3,975,000)
Water Department	Waterpark	(1,300,000)
Wastewater Department	General Fund	(921,576)
Sanitation Department	General Fund	<u>(5,086)</u>
Internal Balances, Net		<u>\$ (6,910,176)</u>

:

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

4. INTERFUND RECEIVABLES AND PAYABLES, CONTINUED

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2015 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Parks & Recreation	\$ 56,812
General Fund	EMS Fund	365,061
General Fund	Coal & Mineral Severance	175,268
General Fund	Municipal Aid Fund	38,396
General Fund	Cemetery Fund	2,732
General Fund	Waterpark	3,426,643
General Fund	Fuel Center Fund	5,477
General Fund	Tourism & Travel	2,648
Parks & Rec.	Cemetery	38,512
Cemetery	General	531
EMS Fund	General Fund	4,261
Fuel Center Fund	General Fund	37,247
Fuel Center Fund	Parks & Recreation	1,155
Fuel Center Fund	Waterpark	749
Fuel Center Fund	EMS Fund	6,956
Parks & Recreation	Waterpark	66
Parks & Recreation	General Fund	11,403
Waterpark	Fuel Center Fund	656
Waterpark	Parks & Recreation	275
Waterpark	General Fund	15,975
Gas Department	Wastewater Department	785
Gas Department	Water Department	826
Gas Department	Internal Service Fund	2,110
Sanitation	Internal Service Fund	1,207
Water Department	Wastewater Department	33,805
Water Department	Sanitation Department	166
Water Department	Internal Service Fund	4,456
Water Department	Gas Department	62,012
Wastewater Department	Water Department	1,954
Wastewater Department	Internal Service Fund	3,251

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

5. CAPITAL ASSETS

A summary of changes in City's capital assets during the year ended June 30, 2015 is as follows:

	June 30, 2014	Additions/ Transfers	Disposals/ Transfers	June 30, 2015
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 2,013,999	\$ 204,642	\$ 71,844	\$ 2,146,797
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>734,078</u>	<u>5,275,540</u>	<u>-</u>	<u>6,009,618</u>
Totals	<u>\$ 2,759,145</u>	<u>\$ 5,480,182</u>	<u>\$ 71,844</u>	<u>\$ 8,167,483</u>
Capital assets that are depreciated:				
Infrastructure	35,868,563	-	-	35,868,563
Building and improvements	10,028,543	160,199	162,717	10,026,025
Vehicles	5,237,282	206,111	131,744	5,311,649
Equipment	2,481,617	39,000	27,022	2,493,595
Office equipment	900,630	10,598	-	911,228
Land improvements	<u>1,248,690</u>	<u>-</u>	<u>-</u>	<u>1,248,690</u>
Totals	<u>55,765,325</u>	<u>415,908</u>	<u>321,483</u>	<u>55,859,750</u>
Total capital assets	<u>58,524,470</u>	<u>5,896,090</u>	<u>393,327</u>	<u>64,027,233</u>
Accumulated depreciation:				
Infrastructure	17,730,521	1,021,142	-	18,751,663
Buildings and improvements	2,889,817	324,074	159,606	3,054,285
Vehicles	3,914,266	325,923	69,110	4,171,079
Equipment	1,768,885	143,196	102	1,911,979
Office equipment	726,665	88,412	164	814,913
Land improvements	<u>732,033</u>	<u>64,079</u>	<u>-</u>	<u>796,112</u>
Totals	<u>27,762,187</u>	<u>1,966,826</u>	<u>228,982</u>	<u>29,500,031</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 30,762,283</u>	<u>\$ 3,929,264</u>	<u>\$ 164,345</u>	<u>\$ 34,527,202</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

5. CAPITAL ASSETS, CONTINUED

	June 30, 2014	Additions/ Transfers	Disposals/ Transfers	June 30, 2015
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 829,362	\$ 75,571	\$ -	\$ 904,933
Right of way and easements	122,022	-	-	122,022
Construction in progress	<u>1,593,110</u>	<u>1,425,465</u>	<u>67,413</u>	<u>2,951,162</u>
Totals	<u>2,544,494</u>	<u>1,501,036</u>	<u>67,413</u>	<u>3,978,117</u>
Capital assets that are depreciated:				
Utility plant and dist. system	82,971,369	845,620	-	83,816,989
Building and improvements	47,992,577	1,287,123	-	49,279,700
Vehicles	2,905,131	34,444	50,648	2,888,927
Equipment	2,495,314	-	53,520	2,441,794
Office equipment	864,195	-	-	864,195
Land improvements	<u>50,266</u>	<u>-</u>	<u>-</u>	<u>50,266</u>
Totals	<u>137,278,852</u>	<u>2,167,187</u>	<u>104,168</u>	<u>139,341,871</u>
Total capital assets	<u>139,823,346</u>	<u>3,668,223</u>	<u>171,581</u>	<u>143,319,988</u>
Accumulated depreciation:				
Utility plant and dist. system	35,355,065	1,708,221	-	37,063,286
Buildings and Improvements	9,352,426	981,338	-	10,333,764
Vehicles	2,042,055	132,559	15,590	2,159,024
Equipment	1,909,948	109,987	15,922	2,004,013
Office Equipment	438,140	26,559	-	464,699
Land Improvements	<u>26,414</u>	<u>2,926</u>	<u>-</u>	<u>29,340</u>
Totals	<u>49,124,048</u>	<u>2,961,590</u>	<u>31,512</u>	<u>52,054,126</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 90,699,298</u>	<u>\$ 706,633</u>	<u>\$ 140,069</u>	<u>\$ 91,265,862</u>
Primary Government				
Capital Assets, Net	<u>\$ 121,461,581</u>	<u>\$ 4,635,897</u>	<u>\$ 304,413</u>	<u>\$ 125,793,065</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

5. CAPITAL ASSETS, CONTINUED

Component Unit	June 30, 2014	Additions/ Transfers	Disposals/ Transfers	June 30, 2015
Capital assets not depreciated:				
Land	\$ 71,000	\$ -	\$ -	\$ 71,000
Construction in progress	<u>231,072</u>	<u>32,799</u>	<u>-</u>	<u>263,871</u>
Totals	<u>302,072</u>	<u>32,799</u>	<u>-</u>	<u>334,871</u>
Capital assets that are depreciated:				
Building and improvements	292,821	5,428	-	298,249
Equipment	102,489	-	-	102,489
Office equipment	26,886	13,566	-	40,452
Land improvements	<u>199,154</u>	<u>-</u>	<u>-</u>	<u>199,154</u>
Totals	<u>621,350</u>	<u>18,994</u>	<u>-</u>	<u>640,344</u>
Total capital assets	<u>923,422</u>	<u>51,793</u>	<u>-</u>	<u>975,215</u>
Accumulated Depreciation				
Buildings and Improvements	176,672	25,440	-	202,112
Equipment	134,317	-	-	134,317
Office Equipment	100,010	-	-	100,010
Land Improvements	<u>20,523</u>	<u>-</u>	<u>-</u>	<u>20,523</u>
Totals	<u>431,522</u>	<u>25,440</u>	<u>-</u>	<u>456,962</u>
Component Unit				
Capital Assets, Net	<u>\$ 491,900</u>	<u>\$ 26,353</u>	<u>\$ -</u>	<u>\$ 518,253</u>

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

Primary Government

Governmental Activities

Waterpark	\$ 714,357
Streets	562,751
Public Safety	238,099
General Government	182,327
Emergency Medical Services	150,320
Parks and Recreation	85,422
Fuel Center	30,324
Cemetery	2,784
Intergovernmental Programs	<u>442</u>
	<u>\$ 1,966,826</u>

Business-Type Activities

Water	\$ 1,385,275
Wastewater	1,035,424
Gas	452,854
Sanitation	86,107
Internal Service	<u>1,930</u>
	<u>\$ 2,961,590</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2015:

Description and Purpose	Balance June 30, 2014	Issued	Retired	June 30, 2015	Due within One year
Primary Government					
<u>Governmental Activities</u>					
General Obligation Bonds					
Series 2010 with interest at 2.00% to 3.00%, maturing in fiscal year 2019	\$ 2,225,000	\$ -	\$ 850,000	\$ 1,375,000	\$ 700,000
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	4,976,785	-	-	4,976,785	-
Bond Anticipation Note					
Series 2014 (Energy Center Project) with interest at 1.25%, maturing in fiscal year 2017	-	9,350,000	-	9,350,000	-
<u>Waterpark</u>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	<u>1,712,854</u>	<u>-</u>	<u>-</u>	<u>1,712,854</u>	<u>-</u>
Net Pension Liability	<u>\$ 15,064,082</u>	<u>\$ -</u>	<u>\$ 345,461</u>	<u>\$ 14,718,621</u>	<u>\$ -</u>
Total governmental activities	<u>\$ 23,978,721</u>	<u>\$ 9,350,000</u>	<u>\$ 1,195,461</u>	<u>\$ 32,133,260</u>	<u>\$ 700,000</u>
<u>Business-Type Activities</u>					
Gas Department					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	\$ 786,686	\$ -	\$ -	\$ 786,686	\$ -
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	<u>33,085</u>	<u>-</u>	<u>1,408</u>	<u>31,677</u>	<u>1,437</u>
Total Gas Department	<u>819,771</u>	<u>-</u>	<u>1,408</u>	<u>818,363</u>	<u>1,437</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

6. LONG-TERM DEBT, CONTINUED

Business-Type Activities, continued

Description and Purpose	Balance June 30, 2014	Issued	Retired	June 30, 2015	Due within One year
Water Department					
Series 2012 GO with interest at 2%, maturing in fiscal year 2019	1,855,000	-	355,000	1,500,000	365,000
Original issue premium	62,991	-	12,598	50,393	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	9,000,000	-	148,500	8,851,500	152,000
Series 2012B with interest at 2.125% maturing in fiscal year 2052	5,000,000	-	82,500	4,917,500	84,500
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	<u>4,635,000</u>	<u>-</u>	<u>145,000</u>	<u>4,490,000</u>	<u>150,000</u>
Total Water Department	<u>20,552,991</u>	<u>-</u>	<u>743,598</u>	<u>19,809,393</u>	<u>751,500</u>
Wastewater Department					
KIA note with interest at 1.2%, maturing in fiscal year 2018	577,825	-	141,874	435,951	143,582
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	1,333,675	-	-	1,333,675	-
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	7,953,978	-	371,360	7,582,618	375,083
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	374,652	-	15,952	358,700	16,274

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

6. LONG-TERM DEBT, CONTINUED

Business-Type Activities, continued

Wastewater Department, continued					Due within
Description and Purpose	June 30, 2014	Issued	Retired	June 30, 2015	One year
Note payable to First Southern National Bank with interest at 2.5%, maturing in fiscal year 2015	516,253	1,458,000	1,974,253	-	-
Note payable to local bank with interest at 3.25% and adjusting after 60 months to a Prime Rate, maturing in fiscal year 2035	-	2,000,010	24,350	1,975,660	72,638
Total Wastewater Department	10,756,383	3,458,010	2,527,789	11,686,604	607,577
Net Pension Liability	\$ 4,879,103	\$ -	\$ 149,539	\$ 4,729,564	\$ -
Total Business-type activities	37,008,248	3,458,010	3,422,334	37,043,924	1,360,514
Total primary government	<u>\$ 60,986,969</u>	<u>\$12,808,010</u>	<u>\$ 4,617,795</u>	<u>\$ 69,177,184</u>	<u>\$ 2,060,514</u>

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	\$ 4,976,785
Waterpark	1,712,854
Gas department	31,677
Wastewater department	1,333,675
Total	<u>\$ 8,054,991</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, 2015

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
2016	\$ 700,000	\$ 393,491	\$ 1,093,491
2017	9,752,238	323,940	10,076,178
2018	409,831	255,242	665,073
2019	421,034	242,779	663,813
2020	375,865	230,825	606,690
2021-2025	2,072,953	953,237	3,026,190
2026-2030	2,517,157	513,902	3,031,059
2031-2032	<u>1,165,561</u>	<u>50,101</u>	<u>1,215,662</u>
	<u>\$ 17,414,639</u>	<u>\$ 2,963,517</u>	<u>\$ 20,378,156</u>

Business-Type Activities

Year ended	Principal	Interest	Total
2016	\$ 1,360,514	\$ 730,918	\$ 2,091,432
2017	1,437,053	704,646	2,141,699
2018	1,468,883	677,055	2,145,938
2019	1,342,925	649,115	1,992,040
2020	1,036,531	625,229	1,661,760
2021-2025	5,541,822	2,779,896	8,321,718
2026-2030	6,242,745	2,095,885	8,338,630
2031-2035	5,720,994	1,301,618	7,022,612
2036-2040	2,293,500	760,731	3,054,231
2041-2045	2,230,500	525,704	2,756,204
2046-2050	2,508,000	277,164	2,785,164
2051-2052	<u>1,080,500</u>	<u>34,499</u>	<u>1,114,999</u>
Unamortized premium	<u>50,393</u>	<u>-</u>	<u>50,393</u>
	<u>\$ 32,314,360</u>	<u>\$ 11,162,460</u>	<u>\$ 43,476,820</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, 2015 required by the revenue bond ordinances are reported in the accompanying financial statements as reservations of retained earnings of the various utility funds. At June 30, 2015, the City had funds in restricted accounts in excess of the amount required by existing bond ordinances.

Interest expense of the governmental activities and business-type activities has been included as a direct function expense in the applicable function on the statement of activities.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

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, 2015, 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, 2015, participating employers contributed 17.67% of each employee's wages for non-hazardous job classifications and 34.31% 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, 2015, the City contributed \$804,991, or 100% of the required contribution for non-hazardous job classifications, and \$1,002,090, for the year ended June 30, 2015, or 100% of the required contribution for hazardous job classifications.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ 19,448,185	\$ 8,349,736	\$ 11,098,449

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

7. RETIREMENT PLAN, CONTINUED

The net pension liability was measured as of June 30, 2014, 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, 2014 was as follows:

Non-hazardous	Hazardous
.26%	.92%

The proportionate share at June 30, 2014 was equal to the proportionate share as of June 30, 2013. For the year ended June 30, 2015, the City recognized pension expense of \$1,123,400. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on Plan investments	-	1,618,400
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	<u>1,807,081</u>	<u>-</u>
Total	<u>\$ 1,807,081</u>	<u>\$ 1,618,400</u>

The \$1,807,081 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2016	\$ (404,600)
2017	(404,600)
2018	(404,600)
2019	(404,600)

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

7. RETIREMENT PLAN, CONTINUED

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	3.50%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.75%, net of Plan investment expense, including inflation

Hazardous

Inflation	3.50%
Salary increases	4.50%, average, including inflation
Investment rate of return	7.75%, net of Plan investment expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005-June 30, 2008.

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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

7. RETIREMENT PLAN, CONTINUED

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core US Fixed Income	10%	5.25%
High Yield US Fixed Income	5%	7.25%
Non US Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75 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.

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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 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	6.75%	\$ 10,987,910	6.75%	\$ 14,518,048
Current discount rate	7.75%	\$ 8,349,736	7.75%	\$ 11,098,449
1% increase	8.75%	\$ 6,019,157	8.75%	\$ 8,194,243

Payable to the Pension Plan – At June 30, 2015, the City reported a payable of \$393,422 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. The payable includes both the pension and insurance contribution allocation.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2015 were levied in September, 2014 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.

9. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General Operations	\$ 1,488,250
General	Fuel Center	General Operations	\$ 150,000
General	Cemetery	General Operations	\$ 43,950
General	Waterpark	General Operations	\$ 182,250
EMS	General	Indirect cost reimbursement	\$ 25,000
Gas	General	General operations	\$ 1,500,000
Gas	General	General operations	\$ 1,125,000
Gas	General	Indirect cost reimbursement	\$ 50,000
Gas	Internal Service	General operations	\$ 96,001
Gas	Parks	Fixed asset transfer	\$ 30,558
Parks	Gas	Fixed asset transfer	\$ 31,717
Travel & Tourism	General	Indirect cost reimbursement	\$ 12,000
Sanitation	General	Fixed asset transfer	\$ 25,350
Sanitation	Internal Service	General operations	\$ 96,001
Sanitation	Waterpark	General operations	\$ 274,300
Water	General	General operations	\$ 2,000,000
Water	General	General operations	\$ 1,030,000
Water	General	General operations	\$ 50,000
Water	Internal Service	General operations	\$ 96,001
Waterpark	Parks & Recreation	General operations	\$ 300
Wastewater	General	Indirect cost reimbursement	\$ 50,000
Wastewater	Internal Service	General operations	\$ 96,001
Wastewater	General	Fixed Asset Transfer	\$ 4,500

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

10. INDUSTRIAL REVENUE BONDS

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.

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 form 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.

13. RESTATEMENT OF NET POSITION

Waterpark Reclassification

The beginning net position of both governmental and business-type activities has been restated due to the reclassification of the Waterpark from a proprietary fund to a governmental fund. The beginning fund balance of the Waterpark has also been restated on the fund financial statements to remove capital assets and long-term debt. The effect of this restatement on beginning net position and fund balance is included with the GASB Statement No. 68 restatement which is outlined below.

Implementation of new accounting standard GASB Statement No. 68

During 2015 the City implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67, Financial Reporting for Pension Plans.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2015

13. RESTATEMENT OF NET POSITION, CONTINUED

The guidance contained in Statement 68 changed how governments calculate and report the costs and obligations associated with pensions. Under the new standards GASB requires that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 68 to be applied retroactively, which along with the reclassification of the Waterpark fund has resulted in a restatement of beginning net position as follows:

Governmental Activities

Net position, at beginning of year	\$ 16,047,479
Beginning net pension liability	(15,064,083)
Waterpark reclassification	<u>3,659,040</u>
Net position, at beginning of year, as restated	\$ <u>4,642,436</u>

Business-Type Activities

Net position, at beginning of year	\$ 84,526,500
Beginning net pension liability	(4,879,101)
Waterpark reclassification	<u>(3,659,040)</u>
Net position, at beginning of year, as restated	\$ <u>75,988,359</u>

Governmental Funds - Waterpark Fund Balance

Net position, at beginning of year	\$ 3,659,040
Capital assets, net	(9,936,607)
Long-term debt	<u>1,712,854</u>
Fund balance, at beginning of year, as restated	\$ <u>(4,564,713)</u>

SUPPLEMENTAL INFORMATION

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes	\$ 1,325,000	\$ 1,325,000	\$ 1,208,135	\$ (116,865)
Licenses and permits	4,713,000	4,713,000	5,465,102	752,102
Fines and forfeits	7,000	7,000	113,885	106,885
Intergovernmental revenues	429,200	429,200	353,719	(75,481)
Interest income	20,000	20,000	11,595	(8,405)
Other revenues	188,800	188,800	228,740	39,940
TOTAL REVENUES	<u>6,683,000</u>	<u>6,683,000</u>	<u>7,381,176</u>	<u>698,176</u>
EXPENDITURES				
General government	3,237,850	3,237,850	3,374,809	136,959
Public safety	5,989,200	5,989,200	5,641,551	(347,649)
Public services	284,325	284,325	380,698	96,373
Streets	893,000	893,000	1,307,328	414,328
Downtown revitalization	210,000	210,000	144,430	(65,570)
Intergovernmental programs	148,700	148,700	131,499	(17,201)
Capital outlay	438,000	438,000	203,462	(234,538)
Debt service - principal	855,000	855,000	850,000	(5,000)
Debt service - interest	143,000	143,000	227,736	84,736
TOTAL EXPENDITURES	<u>12,199,075</u>	<u>12,199,075</u>	<u>12,261,513</u>	<u>62,438</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	33,516	33,516
Transfer from other funds	5,525,000	5,525,000	6,195,672	670,672
Transfer to other funds	(1,084,450)	(1,084,450)	(1,864,449)	(779,999)
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,440,550</u>	<u>4,440,550</u>	<u>4,364,739</u>	<u>(75,811)</u>
NET CHANGE IN FUND BALANCES	(1,075,525)	(1,075,525)	(515,598)	559,927
FUND BALANCES, BEGINNING OF YEAR	<u>1,386,399</u>	<u>1,386,399</u>	<u>1,386,399</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 310,874</u>	<u>\$ 310,874</u>	<u>\$ 870,801</u>	<u>\$ 559,927</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
EMS FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 2,640,000	\$ 2,640,000	\$ 3,151,486	\$ 511,486
Intergovernmental revenues	1,962,900	1,962,900	1,424,600	(538,300)
Interest income	400	400	743	343
Other revenues	<u>20,000</u>	<u>20,000</u>	<u>22,153</u>	<u>2,153</u>
TOTAL REVENUES	<u>4,623,300</u>	<u>4,623,300</u>	<u>4,598,982</u>	<u>(24,318)</u>
EXPENDITURES				
Emergency medical services	4,447,300	4,447,300	4,612,181	164,881
Capital outlay	<u>181,000</u>	<u>181,000</u>	<u>136,963</u>	<u>(44,037)</u>
TOTAL EXPENDITURES	<u>4,628,300</u>	<u>4,628,300</u>	<u>4,749,144</u>	<u>120,844</u>
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(30,000)	(30,000)	(175,162)	(145,162)
FUND BALANCES, BEGINNING OF YEAR	<u>380,114</u>	<u>380,114</u>	<u>380,114</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 350,114</u>	<u>\$ 350,114</u>	<u>\$ 204,952</u>	<u>\$ (145,162)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
WATERPARK FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,037,000	\$ 1,037,000	\$ 1,105,793	\$ 68,793
Interest income	250	250	379	129
Other revenues	<u>82,250</u>	<u>82,250</u>	<u>15,154</u>	<u>(67,096)</u>
TOTAL REVENUES	<u>1,119,500</u>	<u>1,119,500</u>	<u>1,121,326</u>	<u>1,826</u>
EXPENDITURES				
Waterpark	1,240,300	1,240,300	1,589,876	349,576
Debt service - interest	-	-	64,604	64,604
Capital outlay	<u>153,500</u>	<u>153,500</u>	<u>-</u>	<u>(153,500)</u>
TOTAL EXPENDITURES	<u>1,393,800</u>	<u>1,393,800</u>	<u>1,654,480</u>	<u>260,680</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>274,300</u>	<u>274,300</u>	<u>456,250</u>	<u>181,950</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>274,300</u>	<u>274,300</u>	<u>456,250</u>	<u>181,950</u>
NET CHANGE IN FUND BALANCES	-	-	(76,904)	(76,904)
FUND BALANCES, BEGINNING OF YEAR, RESTATED	<u>(4,564,713)</u>	<u>(4,564,713)</u>	<u>(4,564,713)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (4,564,713)</u>	<u>\$ (4,564,713)</u>	<u>\$ (4,641,617)</u>	<u>\$ (76,904)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
FUEL CENTER FUND
for the year ended June 30, 2015

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 155,800	\$ 155,800	\$ 2,388,290	\$ 2,232,490
Interest income	-	-	812	812
Other revenues	-	-	-	-
TOTAL REVENUES	<u>155,800</u>	<u>155,800</u>	<u>2,389,102</u>	<u>2,233,302</u>
EXPENDITURES				
Fuel center	145,800	282,800	2,459,882	2,177,082
Capital outlay	<u>10,000</u>	<u>10,000</u>	<u>62,359</u>	<u>52,359</u>
TOTAL EXPENDITURES	<u>155,800</u>	<u>292,800</u>	<u>2,522,241</u>	<u>2,229,441</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	-	<u>137,000</u>	<u>150,000</u>	<u>13,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>137,000</u>	<u>150,000</u>	<u>13,000</u>
NET CHANGE IN FUND BALANCES	-	-	16,861	16,861
FUND BALANCES, BEGINNING OF YEAR	<u>193,216</u>	<u>193,216</u>	<u>193,216</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 193,216</u>	<u>\$ 193,216</u>	<u>\$ 210,077</u>	<u>\$ 16,861</u>

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

	2014	2015
City's proportion of the net pension liability	0.26%	0.26%
City's proportionate share of the net pension liability (asset)	\$ 9,448,091	\$ 8,349,736
City's covered employee payroll	\$ 5,861,806	\$ 6,313,654
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	161.18%	132.25%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%

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 last two fiscal years.

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

	2014	2015
City's proportion of the net pension liability	0.92%	0.92%
City's proportionate share of the net pension liability (asset)	\$ 12,345,466	\$ 11,098,449
City's covered employee payroll	\$ 4,681,614	\$ 4,822,081
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	263.70%	230.16%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%

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 last two fiscal years.

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

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

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 last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

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

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

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 last two fiscal years.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

CITY OF SOMERSET, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2015

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2015 Total
ASSETS						
Cash and cash equivalents	\$ 264,806	\$ 10,094	\$ 53,112	\$ 364,996	\$ 232,150	\$ 925,158
Investments	-	-	-	-	-	-
Accounts receivable	29,852	(26)	10,465	11,400	24,350	76,041
Inventory	-	2,222	-	6,000	-	8,222
Prepaid expenses	-	8,971	-	473	244	9,688
Interest receivable	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Due from other fund	-	49,981	-	531	-	50,512
Total assets	<u>\$ 294,658</u>	<u>\$ 71,242</u>	<u>\$ 63,577</u>	<u>\$ 383,400</u>	<u>\$ 256,744</u>	<u>\$ 1,069,621</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ -	\$ 16,211	\$ -	\$ 218	\$ 1,143	\$ 17,572
Accrued payroll	-	-	-	-	-	-
Compensated absences	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
Due to other fund	38,396	58,242	175,268	41,244	2,648	315,798
Other current liabilities	-	50,712	-	2,245	1,549	54,506
Total liabilities	38,396	125,165	175,268	43,707	5,340	387,876
Fund balance	<u>256,262</u>	<u>(53,923)</u>	<u>(111,691)</u>	<u>339,693</u>	<u>251,404</u>	<u>681,745</u>
Total liabilities and fund balances	<u>\$ 294,658</u>	<u>\$ 71,242</u>	<u>\$ 63,577</u>	<u>\$ 383,400</u>	<u>\$ 256,744</u>	<u>\$ 1,069,621</u>

CITY OF SOMERSET, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2015

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2015 Total
REVENUES						
Intergovernmental revenues	\$ 257,368	\$ -	\$ 46,792	\$ -	\$ 234,785	\$ 538,945
Charges for services	-	145,478	-	34,646	-	180,124
Interest income	1,180	54	190	1,799	-	3,223
Other revenues	-	18,862	-	131	3,274	22,267
Total revenues	<u>258,548</u>	<u>164,394</u>	<u>46,982</u>	<u>36,576</u>	<u>238,059</u>	<u>744,559</u>
EXPENDITURES						
Current						
Streets	38,396	-	132,707	-	-	171,103
Parks and recreation	-	1,308,036	-	-	-	1,308,036
Cemetery	-	-	-	117,253	-	117,253
Economic development	-	-	-	-	-	-
Travel and tourism	-	-	-	-	144,094	144,094
Capital outlay	-	345,392	-	-	-	345,392
Debt Service	-	-	-	-	-	-
Total expenditures	<u>38,396</u>	<u>1,653,428</u>	<u>132,707</u>	<u>117,253</u>	<u>144,094</u>	<u>2,085,878</u>
Excess revenues over (under) expenditures before other sources (uses)	220,152	(1,489,034)	(85,725)	(80,677)	93,965	(1,341,319)
Other financing sources						
Financing proceeds	-	-	-	-	-	-
Transfers from (to) other funds	-	1,488,550	-	43,950	(12,000)	1,520,500
Excess revenues and other sources over (under) expenditures	220,152	(484)	(85,725)	(36,727)	81,965	179,181
Fund balances, beginning of year	<u>36,110</u>	<u>(53,439)</u>	<u>(25,966)</u>	<u>376,420</u>	<u>169,439</u>	<u>502,564</u>
FUND BALANCES - END OF YEAR	<u>\$ 256,262</u>	<u>\$ (53,923)</u>	<u>\$ (111,691)</u>	<u>\$ 339,693</u>	<u>\$ 251,404</u>	<u>\$ 681,745</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
GAS DEPARTMENT
for the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 14,505,000	\$ 10,091,356	\$ (4,413,644)
Transportation/surcharges	1,700,000	1,951,139	251,139
Other operating revenues	<u>513,000</u>	<u>634,941</u>	<u>121,941</u>
TOTAL OPERATING REVENUES	<u>16,718,000</u>	<u>12,677,436</u>	<u>(4,040,564)</u>
OPERATING EXPENSES			
Gas purchases, net of refunds	10,605,000	5,405,181	(5,199,819)
Maintenance	1,220,000	542,577	(677,423)
Personnel services	1,290,500	1,334,732	44,232
Supplies	111,000	95,619	(15,381)
Utilities	58,000	63,097	5,097
Insurance	60,000	110,697	50,697
Engineering	290,000	61,240	(228,760)
Severance tax	10,000	4,862	(5,138)
Contract compression	280,000	324,965	44,965
Other	307,000	227,910	(79,090)
Depreciation	<u>-</u>	<u>452,854</u>	<u>452,854</u>
TOTAL OPERATING EXPENSES	<u>14,231,500</u>	<u>8,623,734</u>	<u>(5,607,766)</u>
OPERATING INCOME (LOSS)	<u>2,486,500</u>	<u>4,053,702</u>	<u>1,567,202</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	6,500	6,526	26
Interest expense	-	(35,347)	(35,347)
Gain (loss) on asset disposal	<u>-</u>	<u>(24,973)</u>	<u>(24,973)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>6,500</u>	<u>(53,794)</u>	<u>(60,294)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>2,493,000</u>	<u>3,999,908</u>	<u>1,506,908</u>
OPERATING TRANSFERS			
Transfers in	-	31,717	31,717
Transfers out	<u>(2,550,500)</u>	<u>(2,801,559)</u>	<u>(251,059)</u>
TOTAL OPERATING TRANSFERS	<u>(2,550,500)</u>	<u>(2,769,842)</u>	<u>(219,342)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (57,500)</u>	<u>\$ 1,230,066</u>	<u>\$ 1,287,566</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WATER DEPARTMENT
for the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 7,095,000	\$ 6,602,860	\$ (492,140)
Transportation/surcharges	65,000	52,191	(12,809)
Other operating revenues	<u>1,000</u>	<u>4,586</u>	<u>3,586</u>
TOTAL OPERATING REVENUES	<u>7,161,000</u>	<u>6,659,637</u>	<u>(501,363)</u>
OPERATING EXPENSES			
Maintenance	2,200,300	244,448	(1,955,852)
Personnel services	1,443,500	1,449,473	5,973
Supplies	587,500	483,410	(104,090)
Utilities	715,000	788,489	73,489
Insurance	80,000	93,092	13,092
Engineering	65,000	25,322	(39,678)
Other	80,700	74,870	(5,830)
Amortization	-	9,022	9,022
Depreciation	<u>-</u>	<u>1,385,275</u>	<u>1,385,275</u>
TOTAL OPERATING EXPENSES	<u>5,172,000</u>	<u>4,553,401</u>	<u>(618,599)</u>
OPERATING INCOME (LOSS)	<u>1,989,000</u>	<u>2,106,236</u>	<u>117,236</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	40,000	17,583	(22,417)
Interest expense	(428,500)	(505,977)	(77,477)
Gain (loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(388,500)</u>	<u>(488,394)</u>	<u>(99,894)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,600,500	1,617,842	17,342
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(3,100,500)</u>	<u>(3,176,001)</u>	<u>(75,501)</u>
TOTAL OPERATING TRANSFERS	<u>(3,100,500)</u>	<u>(3,176,001)</u>	<u>(75,501)</u>
CAPITAL CONTRIBUTIONS			
Federal grants	<u>1,500,000</u>	<u>476,056</u>	<u>(1,023,944)</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>1,500,000</u>	<u>476,056</u>	<u>(1,023,944)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 1,989,000</u>	<u>\$ (1,082,103)</u>	<u>\$ (3,071,103)</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WASTEWATER DEPARTMENT
for the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 2,540,000	\$ 2,306,266	\$ (233,734)
Transportation/surcharges	20,000	19,497	(503)
Other operating revenues	<u>14,800</u>	<u>55,405</u>	<u>40,605</u>
TOTAL OPERATING REVENUES	<u>2,574,800</u>	<u>2,381,168</u>	<u>(193,632)</u>
OPERATING EXPENSES			
Maintenance	397,000	278,925	(118,075)
Personnel services	1,227,500	1,162,227	(65,273)
Supplies	22,500	18,787	(3,713)
Utilities	348,000	370,641	22,641
Insurance	50,000	64,520	14,520
Engineering	55,000	44,250	(10,750)
Treatment	110,000	79,432	(30,568)
Other	122,000	104,406	(17,594)
Depreciation	<u>-</u>	<u>1,035,424</u>	<u>1,035,424</u>
TOTAL OPERATING EXPENSES	<u>2,332,000</u>	<u>3,158,612</u>	<u>826,612</u>
OPERATING INCOME (LOSS)	<u>242,800</u>	<u>(777,444)</u>	<u>(1,020,244)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	30,000	20,773	(9,227)
Interest expense	(524,500)	(193,402)	331,098
Gain (loss) on asset disposal	<u>-</u>	<u>2,000</u>	<u>2,000</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(494,500)</u>	<u>(170,629)</u>	<u>323,871</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(251,700)</u>	<u>(948,073)</u>	<u>(696,373)</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(150,500)</u>	<u>(150,501)</u>	<u>(1)</u>
TOTAL OPERATING TRANSFERS	<u>(150,500)</u>	<u>(150,501)</u>	<u>(1)</u>
CAPITAL CONTRIBUTIONS			
Federal grants	<u>1,800,000</u>	<u>978,866</u>	<u>(821,134)</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>1,800,000</u>	<u>978,866</u>	<u>(821,134)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 1,397,800</u>	<u>\$ (119,708)</u>	<u>\$ (1,517,508)</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
SANITATION DEPARTMENT
for the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 2,365,000	\$ 2,707,421	\$ 342,421
Other operating revenues	<u>-</u>	<u>8,935</u>	<u>8,935</u>
TOTAL OPERATING REVENUES	<u>2,365,000</u>	<u>2,716,356</u>	<u>351,356</u>
OPERATING EXPENSES			
Maintenance	155,400	176,809	21,409
Personnel services	782,500	941,301	158,801
Supplies	137,000	157,997	20,997
Utilities	9,000	8,062	(938)
Insurance	40,000	50,481	10,481
Landfill	900,000	950,872	50,872
Other	14,800	20,704	5,904
Depreciation	<u>-</u>	<u>86,107</u>	<u>86,107</u>
TOTAL OPERATING EXPENSES	<u>2,038,700</u>	<u>2,392,333</u>	<u>353,633</u>
OPERATING INCOME	<u>326,300</u>	<u>324,023</u>	<u>(2,277)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>7,500</u>	<u>3,357</u>	<u>(4,143)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>7,500</u>	<u>3,357</u>	<u>(4,143)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>333,800</u>	<u>327,380</u>	<u>(6,420)</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(374,800)</u>	<u>(395,651)</u>	<u>(20,851)</u>
TOTAL OPERATING TRANSFERS	<u>(374,800)</u>	<u>(395,651)</u>	<u>(20,851)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (41,000)</u>	<u>\$ (68,271)</u>	<u>\$ (27,271)</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
INTERNAL SERVICE FUND
for the year ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING EXPENSES			
Maintenance	\$ 9,000	\$ 7,922	\$ (1,078)
Personnel services	266,000	244,896	(21,104)
Postage	70,000	64,489	(5,511)
Other	58,000	67,237	9,237
Depreciation	<u>-</u>	<u>1,930</u>	<u>1,930</u>
TOTAL OPERATING EXPENSES	<u>403,000</u>	<u>386,474</u>	<u>(16,526)</u>
OPERATING INCOME (LOSS)	<u>(403,000)</u>	<u>(386,474)</u>	<u>16,526</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>1,000</u>	<u>1,073</u>	<u>73</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,000</u>	<u>1,073</u>	<u>73</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(402,000)</u>	<u>(385,401)</u>	<u>16,599</u>
OPERATING TRANSFERS			
Transfers in	402,000	-	(402,000)
Transfers out	<u>-</u>	<u>384,004</u>	<u>384,004</u>
TOTAL OPERATING TRANSFERS	<u>402,000</u>	<u>384,004</u>	<u>(17,996)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ -</u>	<u>\$ (1,397)</u>	<u>\$ (1,397)</u>



**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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of and for the year ended June 30, 2015, 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 February 2, 2016.

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.

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.

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.

**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
(CONTINUED)**

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 results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs (2015-001).

City of Somerset, Kentucky's Response to Findings

The City of Somerset, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Somerset, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
February 2, 2016

CITY OF SOMERSET KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015

Federal Grantor Program Title	Federal CFDA Number	Federal Expenditures
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	\$ 476,056
Department of Transportation Occupant Protection Incentive Grants (1)	20.602	32,752
Department of Commerce Investments for Public Works and Economic Development Facilities	11.300	937,764
U.S. Department of Justice Harold Rogers Prescription Drug Monitoring Program	16.754	58,698
Edward Byrne Memorial Justice Assistance Grant Program	16.738	9,405
Executive Office of the President High Intensity Drug Trafficking Areas Program	95.001	<u>22,297</u>
Total Federal Financial Assistance		<u>\$ 1,536,972</u>

(1) PassThrough Grantor - Commonwealth of Kentucky, Transportation Cabinet, Office of Highway Safety

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Somerset and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of **OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations**. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Mayor and City Council
City of Somerset, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the City of Somerset, Kentucky's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Somerset, Kentucky's major federal programs for the year ended June 30, 2015. The City of Somerset Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Somerset, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Somerset, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of Somerset, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
(CONTINUED)**

Report on Internal Control over Compliance

Management of the City of Somerset, Kentucky, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Somerset, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Somerset, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
February 2, 2016

**CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2015**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not considered to be material weaknesses ☐ Yes ☒ No

Non-compliance material to financial statements noted ☒ Yes ☐ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not considered to be material weaknesses ☐ Yes ☒ No

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be reported in

accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.781	Water and Waste Disposal Systems for Rural Communities – ARRA
11.300	Investments for Public Works and Economic Development Facilities

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?

☐ Yes ☒ No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

#2015-001 – Compliance

Condition:

During the prior fiscal year, the City began work on an amphitheater project in the parks and recreation department. The costs associated with this project were mainly comprised of excavation and concrete work. While the City obtained bids for the concrete costs, they failed to follow the appropriate procurement procedures regarding bid compliance in relation to the excavation costs, which exceeded the threshold for advertising for bids. The project continued in the current year and again excavation costs exceeded the threshold for advertising for bids. The City also failed to advertise for bids for other purchases including tree trimming and additional excavation work. See Prior Year Finding 2014-001.

Criteria:

As described in Kentucky Revised Statute 424.260, the City is required to advertise for bid involving an expenditure of more than \$20,000 before entering into a contract.

**CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2015**

#2015-001 – Compliance

Cause:

The excavation costs related to this project were initially estimated to be less than the bid requirement; however, excavation costs were substantially more than expected. By the time that the additional cost was communicated to management, the bid threshold had been exceeded. The additional excavation work and tree trimming was not anticipated to exceed the bid threshold and was therefore not advertised for bid.

Effect:

The City failed to properly comply with KRS 424.260.

Recommendation:

We recommend that all projects with a cost greater than \$20,000 be advertised for bids as required by KRS 424.260.

Response:

The Rocky Hollow Amphitheater project has been completed. The City encountered several unforeseen circumstances during this project. We are reviewing and implementing new practices to help us ensure that we are more efficient in the future. These practices will help us make a better effort to enforce the provisions of the City's own procurement policies as well as those in the Model Procurement Code.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2015

IV. PRIOR YEAR FINDINGS

#2014-001 - Financial Reporting

Cause:

The City does not have personnel in place to handle the year-end financial reporting process. As a result, the City relies heavily on outside assistance which causes a delay in year-end close. Furthermore, the consultant works outside of the City's financial reporting system. This makes it difficult for management to properly review and approve proposed adjustments.

Effect:

The City's financial statement audit was delayed for the fiscal year ended June 30, 2014 and material adjustments were necessary to reasonably state the financials.

Recommendation:

We recommend management design control policies and procedures to ensure the year end adjustments and annual financial reporting occur in a more timely fashion and this process is more closely monitored by management.

Status: Audit finding was resolved.

#2014-002 – Compliance

Cause: The excavation costs related to this project were initially estimated to be less than the bid requirement; however, excavation costs were substantially more than expected. By the time that the additional cost was communicated to management, the bid threshold had been exceeded.

Effect:

The City failed to properly comply with KRS 424.260.

Recommendation:

We recommend that all projects with a cost greater than \$20,000 be advertised for bids as required by KRS 424.260.

Status: Bid compliance is a repeat finding in the current year. See #2015-001.