

CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2016

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INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Somerset
Somerset, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2016, and the related notes to the financial statements, which collectively, comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2016, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 November 18, 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
Lexington, Kentucky
November 18, 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, 2016. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

* Total assets increased from \$154.61 million in 2015 to \$155.17 in 2016

- During the year, the City's business type activities generated net revenues of \$4.50 million which was primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$25.6 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.
- In April of 2016 EMS increased its fee structure in order to collect the maximum amounts that Medicare and other insurances allow for various services. This change alone increased revenue by over \$450,000.
- The changes implemented at the Water Park after June 30, 2015 have made a positive impact for FY June 30, 2016. Transfers from other funds to the Water Park in FY 2016 (\$214,412) were less than one third of FY 2014 (\$688,300) and less than one half of FY 2015 (\$456,250).

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis, Continued

Reporting the City as a Whole

Government-Wide Financial Statements

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

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

In the Statement of Net Position and the Statement of Activities, we divide the City into 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 remained relatively unchanged from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2016	2015	2016	2015	2016	2015
Current & Other Assets	\$ (.24)	\$ 4.52	\$ 23.65	\$ 22.47	\$ 23.41	\$ 26.99
Capital Assets	37.78	34.53	89.14	91.27	126.92	125.80
Deferred Outflows	<u>3.62</u>	<u>1.35</u>	<u>1.21</u>	<u>.47</u>	<u>4.83</u>	<u>1.82</u>
Total Assets and Deferred Outflows	<u>41.16</u>	<u>40.40</u>	<u>114.00</u>	<u>114.21</u>	<u>155.16</u>	<u>154.61</u>
Other Liabilities	2.55	3.40	2.71	2.82	5.26	6.22
Long Term Liabilities	35.33	31.43	36.06	35.69	71.39	67.12
Deferred Inflows	<u>.02</u>	<u>1.20</u>	<u>-</u>	<u>.42</u>	<u>.02</u>	<u>1.62</u>
Total Liabilities/Deferred Inflows	<u>37.90</u>	<u>36.03</u>	<u>38.77</u>	<u>38.93</u>	<u>76.67</u>	<u>74.96</u>
Investment in Capital Assets, Net of Debt	21.06	17.11	58.12	58.95	79.18	76.06
Restricted	.82	5.11	3.03	1.51	3.85	6.62
Unrestricted, restated	<u>(18.62)</u>	<u>(17.85)</u>	<u>14.08</u>	<u>14.82</u>	<u>(4.54)</u>	<u>(3.03)</u>
Total Net Position	<u>\$ 3.26</u>	<u>\$ 4.37</u>	<u>\$ 75.23</u>	<u>\$ 75.28</u>	<u>\$ 78.49</u>	<u>\$ 79.65</u>

Net position of the City's governmental activities decreased \$1.11 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 (\$17.85) million at June 30, 2015 to (\$18.62) million at the end of this year.

The net position of our business-type activities was relatively unchanged decreasing from \$75.28 million at June 30, 2015 to \$75.23 million at the end of this year.

Total assets and deferred outflows increased from \$154.61 million at June 30, 2015 to \$155.16 million at June 30, 2016.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 5.96	\$ 6.83	\$ 24.88	\$ 24.43	\$ 30.84	\$ 31.26
Federal & State Grants	2.09	2.08	.04	1.45	2.13	3.53
General Revenues						
Property Taxes	1.43	1.21	-	-	1.43	1.21
Other Taxes and License Fees	7.17	5.70	-	-	7.17	5.7
Other General Revenues	<u>.23</u>	<u>.40</u>	<u>.05</u>	<u>0.05</u>	<u>.28</u>	<u>.45</u>
Total Revenues	<u>\$ 16.88</u>	<u>\$ 16.22</u>	<u>\$ 24.97</u>	<u>\$ 25.93</u>	<u>\$ 41.85</u>	<u>\$ 42.15</u>
Program Expenses						
General Government	3.91	3.48	-	-	3.91	3.48
Public Safety	6.24	5.64	-	-	6.24	5.64
Public Services	.13	0.37	-	-	.13	0.37
Streets	1.79	2.02	-	-	1.79	2.02
Parks and Recreation	1.19	1.37	-	-	1.19	1.37
Emergency Medical Services	5.45	4.61	-	-	5.45	4.61
Cemetery	.08	0.18	-	-	.08	0.18
Fuel Center	.98	2.48	-	-	.98	2.48
Waterpark	1.90	2.30	-	-	1.90	2.30
Travel & Tourism	.37	0.13	-	-	.37	0.13
Intergovernmental Programs	.16	0.13	-	-	.16	0.13
Downtown Revitalization	.05	0.14	-	-	.05	0.14
Debt Service – Interest	.36	0.35	-	-	.36	0.35
Gas	-	-	9.06	8.75	9.06	8.75
Water	-	-	5.21	5.15	5.21	5.15
Wastewater	-	-	3.53	3.45	3.53	3.45
Sanitation	-	-	<u>2.62</u>	<u>2.49</u>	<u>2.62</u>	<u>2.49</u>
Total Expense	<u>\$ 22.61</u>	<u>\$ 23.20</u>	<u>\$ 20.42</u>	<u>\$ 19.84</u>	<u>\$ 43.03</u>	<u>\$ 43.04</u>
Gain (Loss) on disposal of capital assets	0.02	(0.07)	-	(.02)	.02	(.09)
Excess (Deficiency) before Transfer	(5.71)	(7.05)	4.55	6.07	(1.16)	(.98)
Transfer	<u>4.60</u>	<u>6.78</u>	<u>(4.60)</u>	<u>(6.78)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(1.11)	(.27)	(.05)	(.71)	(1.16)	(.98)
Net Position, beginning, restated	<u>4.37</u>	<u>4.64</u>	<u>75.28</u>	<u>75.99</u>	<u>79.65</u>	<u>80.63</u>
Net Position, ending	<u>\$ 3.26</u>	<u>\$ 4.37</u>	<u>\$ 75.23</u>	<u>\$ 75.28</u>	<u>\$ 78.49</u>	<u>\$ 79.65</u>

Management's Discussion and Analysis, Continued

The City's total revenues decreased by \$.30 million. The total cost of all programs and services decreased by \$.01 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 \$22.61 million compared to \$23.20 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2016 from \$6.83 million to \$5.96 million. The City paid for the remaining "public benefit" portion of governmental activities with \$8.6 million in taxes and license fees, \$2.09 million in grants and entitlements, \$.23 million of other revenues, and \$4.6 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Emergency Medical Services	\$ 5.45	\$ 4.61	\$ 0.47	\$ 0.37
Police and Fire Department	6.24	5.65	5.77	5.30
Streets	1.79	2.03	1.54	1.72
Waterpark	1.90	2.30	.69	1.19
Fuel Center	.98	2.49	.01	.1
All Others	<u>6.25</u>	<u>6.12</u>	<u>6.12</u>	<u>5.63</u>
Totals	<u>\$ 22.61</u>	<u>\$ 23.20</u>	<u>\$ 14.60</u>	<u>\$ 14.31</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) decreased by \$.96 million (\$24.97 million in 2016 compared to \$25.93 million in 2015) and expenses increased by \$0.58 million (\$20.42 million in 2016 compared to \$19.84 million in 2015). 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 \$(2.125) 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 \$1.99 million more than the \$6.93 million budgeted, while actual expenditures were \$1.26 million less than the expected \$12.57 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$126.93 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 \$1.15 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 2.22	\$ 2.15	\$.90	\$ 0.90	\$ 3.12	\$ 3.05
Right of Way and Easements	0.01	0.01	.14	0.12	0.15	0.13
Construction in Progress	.05	6.01	.14	2.95	.19	8.96
Infrastructure	16.09	17.12	-	-	16.09	17.12
Utility Plant and Distribution System	-	-	48.40	46.75	48.40	46.75
Buildings and Improvements	17.78	6.97	37.95	38.95	55.73	45.92
Vehicles	1.09	1.14	0.83	0.73	1.92	1.87
Equipment	.49	.57	0.39	0.44	.88	1.01
Office Equipment	.05	.10	0.38	0.40	0.43	0.50
Land Improvements	-	.45	<u>0.02</u>	<u>0.02</u>	<u>0.02</u>	<u>0.47</u>
Total	<u>\$ 37.78</u>	<u>\$ 34.52</u>	<u>\$ 89.15</u>	<u>\$ 91.26</u>	<u>\$ 126.93</u>	<u>\$ 125.78</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Energy Center project was completed in the current FY. The Midtown Sanitary Sewer Upgrade Project was completed this year. We are also planning the Bourne Avenue Water Line Replacement Project for FY 17. Several sidewalk projects were completed around various neighborhoods as well.

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

Management's Discussion and Analysis, Continued

Debt

As of June 30, 2016, the City's Governmental Activities long term debt had decreased by \$.70 million and the Business-Type Activities long term debt decreased by \$1.19 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$4.42 million and \$1.70 million respectively. Table 5 below contains the details.

Table 5
Outstanding Debt at Year End
(in Millions)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Long-Term Debt	16.71	17.41	31.12	32.31	47.83	49.72
Net Pension Liability	<u>19.14</u>	<u>14.72</u>	<u>6.43</u>	<u>4.73</u>	<u>25.57</u>	<u>19.45</u>
Totals	<u>\$ 35.85</u>	<u>\$ 32.13</u>	<u>\$ 37.55</u>	<u>\$ 37.04</u>	<u>\$ 73.40</u>	<u>\$ 69.17</u>

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,732,330	\$ 4,438,762	\$ 8,171,092	\$ 53,506
Certificates of deposit	1,006,914	4,900,120	5,907,034	118,134
Receivables, net	2,553,970	2,219,581	4,773,551	-
Accrued interest receivable	351	1,163	1,514	-
Inventories	114,990	704,886	819,876	-
Prepaid expenses	29,161	4,910	34,071	3,406
Internal balances, net	<u>(8,292,357)</u>	<u>8,292,357</u>	<u>-</u>	<u>-</u>
Total current assets	<u>(854,641)</u>	<u>20,561,779</u>	<u>19,707,138</u>	<u>175,046</u>
Noncurrent assets				
Restricted cash and cash equivalents	606,400	2,247,457	2,853,857	-
Restricted certificates of deposit	-	759,830	759,830	-
Excess cost over market value of assets acquired, net	-	87,280	87,280	-
Property, Plant, and Equipment				
Nondepreciable property, plant and equipment	2,287,274	1,193,917	3,481,191	334,871
Depreciable property, plant and equipment, net	<u>35,493,224</u>	<u>87,953,155</u>	<u>123,446,379</u>	<u>157,895</u>
Total noncurrent assets	<u>38,386,898</u>	<u>92,241,639</u>	<u>130,628,537</u>	<u>492,766</u>
Total assets	<u>37,532,257</u>	<u>112,803,418</u>	<u>150,335,675</u>	<u>667,812</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	3,624,754	1,205,015	4,829,769	-
Defeasance on refunding	-	8,481	8,481	-
Total assets and deferred outflows of resources	<u>\$ 41,157,011</u>	<u>\$ 114,016,914</u>	<u>\$ 155,173,925</u>	<u>\$ 667,812</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 629,378	\$ 625,173	\$ 1,254,551	\$ 1,260
Accrued interest payable	147,694	166,980	314,674	-
Other current liabilities	1,247,389	449,604	1,696,993	1,516
Current portion of long-term debt	522,738	1,472,163	1,994,901	-
Total current liabilities	<u>2,547,199</u>	<u>2,713,920</u>	<u>5,261,119</u>	<u>2,776</u>
Noncurrent liabilities				
Notes payable	-	7,279,678	7,279,678	-
Bonds payable	16,191,901	22,366,390	38,558,291	-
Net pension liability	19,136,109	6,429,157	25,565,266	-
Total noncurrent liabilities	<u>35,328,010</u>	<u>36,075,225</u>	<u>71,403,235</u>	<u>-</u>
Total liabilities	<u>37,875,209</u>	<u>38,789,145</u>	<u>76,664,354</u>	<u>2,776</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	<u>18,148</u>	<u>-</u>	<u>18,148</u>	<u>-</u>
NET POSITION				
Net invested in capital assets	21,065,859	58,116,121	79,181,980	492,766
Restricted for				
Debt service	310,596	1,924,049	2,234,645	-
Construction	149,288	1,106,651	1,255,939	-
Other purposes	357,728	-	357,728	-
Unrestricted	<u>(18,619,817)</u>	<u>14,080,948</u>	<u>(4,538,869)</u>	<u>172,270</u>
Total net position	<u>3,263,654</u>	<u>75,227,769</u>	<u>78,491,423</u>	<u>665,036</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,157,011</u>	<u>\$ 114,016,914</u>	<u>\$ 155,173,925</u>	<u>\$ 667,812</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 3,913,501	\$ -	\$ -	\$ -	\$ (3,913,501)	\$ -	\$ (3,913,501)	\$ -
Public safety	6,242,869	-	472,813	-	(5,770,056)	-	(5,770,056)	-
Public services	135,926	-	-	-	(135,926)	-	(135,926)	-
Streets	1,789,751	-	246,496	-	(1,543,255)	-	(1,543,255)	-
Parks and recreation	1,193,508	152,050	-	-	(1,041,458)	-	(1,041,458)	-
Emergency medical services	5,447,872	3,607,950	1,370,507	-	(469,415)	-	(469,415)	-
Cemetery	82,686	25,480	-	-	(57,206)	-	(57,206)	-
Waterpark	1,903,407	1,216,673	-	-	(686,734)	-	(686,734)	-
Fuel Center	975,647	962,253	-	-	(13,394)	-	(13,394)	-
Travel and tourism	365,120	-	-	-	(365,120)	-	(365,120)	-
Intergovernmental programs	158,846	-	-	-	(158,846)	-	(158,846)	-
Downtown revitalization	45,870	-	-	-	(45,870)	-	(45,870)	-
Interest on long-term debt	359,176	-	-	-	(359,176)	-	(359,176)	-
Total governmental activities	22,614,179	5,964,406	2,089,816	-	(14,559,957)	-	(14,559,957)	-
Business-type activities								
Gas Department	9,058,957	11,467,526	-	-	-	2,408,569	2,408,569	-
Water Department	5,210,140	7,012,247	-	-	-	1,802,107	1,802,107	-
Wastewater Department	3,533,392	2,743,153	-	43,383	-	(746,856)	(746,856)	-
Sanitation Department	2,619,193	3,654,638	-	-	-	1,035,445	1,035,445	-
Total business-type activities	20,421,682	24,877,564	-	43,383	-	4,499,265	4,499,265	-
Total primary government	\$ 43,035,861	\$ 30,841,970	\$ 2,089,816	\$ 43,383	(14,559,957)	4,499,265	(10,060,692)	-
Component Unit								
Downtown Development Corporation	\$ 112,950	\$ 38,595	\$ 47,703	-	-	-	-	(26,652)
General revenues								
Taxes:								
Property taxes					1,426,815	-	1,426,815	-
Transient room tax					267,160	-	267,160	-
License fees:								
Franchise					872,316	-	872,316	-
Business					318,291	-	318,291	-
Insurance premiums					1,777,768	-	1,777,768	-
Occupational					3,202,630	-	3,202,630	-
ABC					661,685	-	661,685	-
Permits:								
Building					66,179	-	66,179	-
Planning & Zoning					1,608	-	1,608	-
Storm Water					1,700	-	1,700	-
Investment earnings					22,950	49,394	72,344	434
Miscellaneous					211,905	-	211,905	-
Total general revenues					8,831,007	49,394	8,880,401	434
Gain on disposal of capital assets					18,123	-	18,123	-
Transfers in (out)					4,600,000	(4,600,000)	-	-
Change in Net Position					(1,110,827)	(51,341)	(1,162,168)	(26,218)
Net position-beginning, as restated					4,374,481	75,279,110	79,653,591	691,254
NET POSITION-ENDING	\$ 3,263,654	\$ 75,227,769	\$ 78,491,423	\$ 665,036				

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

**CITY OF SOMERSET, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,981,419	\$ 602,087	\$ 257,015	\$ 150,041	\$ -	\$ 741,768	\$ 3,732,330
Certificates of deposit	1,006,914	-	-	-	-	-	1,006,914
Receivables, net	1,483,171	785,332	198,249	13,510	-	73,708	2,553,970
Interest receivable	351	-	-	-	-	-	351
Inventories	12,857	-	18,629	68,305	-	15,199	114,990
Prepaid expenses	5,610	2,248	2,564	375	-	18,364	29,161
Due from other funds	6,111,765	-	7,173	39,501	-	38	6,158,477
Restricted cash	177,407	-	-	-	428,993	-	606,400
Total assets	\$ 10,779,494	\$ 1,389,667	\$ 483,630	\$ 271,732	\$ 428,993	\$ 849,077	\$ 14,202,593
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 192,289	\$ 29,171	\$ 67,818	\$ 34,758	\$ 279,705	\$ 25,637	\$ 629,378
Due to other funds	8,138,387	1,127,062	4,693,420	1,394	-	490,572	14,450,835
Other current liabilities	794,172	260,477	140,785	3,699	-	48,256	1,247,389
Total liabilities	9,124,848	1,416,710	4,902,023	39,851	279,705	564,465	16,327,602
Fund balances							
Nonspendable	18,467	2,248	21,193	68,680	-	33,563	144,151
Restricted	259,619	-	50,977	-	149,288	357,728	817,612
Committed	-	-	-	-	-	282,834	282,834
Unassigned	1,376,560	(29,291)	(4,490,563)	163,201	-	(389,513)	(3,369,606)
Total fund balances	1,654,646	(27,043)	(4,418,393)	231,881	149,288	284,612	(2,125,009)
Total liabilities and fund balances	\$ 10,779,494	\$ 1,389,667	\$ 483,630	\$ 271,732	\$ 428,993	\$ 849,077	\$ 14,202,593

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

Fund balances reported above	\$ (2,125,009)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	37,780,498
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(147,694)
Net deferred inflows/outflows related to the long-term net pension liability are not reported in the funds.	3,606,606
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.	(35,850,747)
Net position of governmental activities	\$ 3,263,654

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, 2016

	General	EMS	Waterpark	Fuel Center	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Taxes	\$ 1,426,815	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,426,815
Licenses and permits	6,902,177	-	-	-	-	-	6,902,177
Fines and forfeits	14,744	-	-	-	-	-	14,744
Charges for services	-	3,607,950	1,216,673	962,253	-	177,530	5,964,406
Intergovernmental	472,813	1,370,507	-	-	-	513,656	2,356,976
Interest income	15,969	1,200	648	1,078	-	4,055	22,950
Other revenues	93,995	20,926	33,272	-	-	48,968	197,161
Total revenues	8,926,513	5,000,583	1,250,593	963,331	-	744,209	16,885,229
EXPENDITURES							
Current:							
General administration	3,518,333	-	-	-	-	-	3,518,333
Public safety	5,707,347	-	-	-	-	-	5,707,347
Public services	135,926	-	-	-	-	-	135,926
Streets	804,677	-	-	-	-	390,563	1,195,240
Parks and recreation	-	-	-	-	-	1,021,961	1,021,961
Emergency medical services	-	5,035,685	-	-	-	-	5,035,685
Cemetery	-	-	-	-	-	74,586	74,586
Waterpark	-	-	1,177,369	-	-	-	1,177,369
Fuel center	-	-	-	941,527	-	-	941,527
Travel and tourism	-	-	-	-	-	361,217	361,217
Downtown revitalization	45,870	-	-	-	-	-	45,870
Intergovernmental programs	144,236	-	-	-	-	-	144,236
Capital outlay	50,197	196,893	-	-	4,921,876	22,265	5,191,231
Debt service	910,603	-	64,412	-	-	-	975,015
Total expenditures	11,317,189	5,232,578	1,241,781	941,527	4,921,876	1,870,592	25,525,543
Excess (deficiency) of revenues over expenditures	(2,390,676)	(231,995)	8,812	21,804	(4,921,876)	(1,126,383)	(8,640,314)
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of assets	26,273	-	-	-	-	-	26,273
Other financing sources - bond proceeds	-	-	-	-	9,350,000	-	9,350,000
Other financing uses - repayment of anticipation note	-	-	-	-	(9,350,000)	-	(9,350,000)
Transfers in	2,480,412	-	214,412	-	1,175,926	729,250	4,600,000
Total other financing sources and uses	2,506,685	-	214,412	-	1,175,926	729,250	4,626,273
Net change in fund balances	116,009	(231,995)	223,224	21,804	(3,745,950)	(397,133)	(4,014,041)
Fund balances-beginning, as restated	1,538,637	204,952	(4,641,617)	210,077	3,895,238	681,745	1,889,032
Fund balances-ending	\$ 1,654,646	\$ (27,043)	\$ (4,418,393)	\$ 231,881	\$ 149,288	\$ 284,612	\$ (2,125,009)

Reconciliation to government-wide change in net position:							
Net change in fund balances							\$ (4,014,041)
add: capital outlay expenditures capitalized							5,191,231
add: debt service expenditures							975,015
less: proceeds from sale of assets							(26,273)
gain on disposal of capital assets							18,123
less: depreciation on governmental activities assets							(1,929,785)
change in net pension liability							(965,921)
less: interest on long term debt							(359,176)
Change in net position Governmental Activities							<u>\$ (1,110,827)</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Business-Type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
ASSETS						
Current assets						
Cash and cash equivalents	\$ 1,768,413	\$ 174,817	\$ 143,497	\$ 688,912	\$ 2,775,639	\$ 1,663,123
Certificates of deposit	-	500,000	3,800,073	600,047	4,900,120	-
Receivables, net	794,312	636,755	312,306	411,608	2,154,981	64,600
Accrued interest receivable	-	132	857	174	1,163	-
Inventories	284,830	350,272	69,784	-	704,886	-
Prepaid expenses	1,327	1,138	1,048	665	4,178	732
Due from other funds	<u>3,688,888</u>	<u>5,859,132</u>	<u>284,209</u>	<u>1,140,251</u>	<u>10,972,480</u>	<u>593</u>
Total current assets	<u>6,537,770</u>	<u>7,522,246</u>	<u>4,611,774</u>	<u>2,841,657</u>	<u>21,513,447</u>	<u>1,729,048</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	1,945,291	302,166	-	2,247,457	-
Restricted certificates of deposit	-	759,830	-	-	759,830	-
Excess cost over market value of assets acquired, net	-	87,280	-	-	87,280	-
Property, Plant and Equipment						
Nondepreciable property, plant and equipment	251,390	701,030	241,497	-	1,193,917	-
Depreciable property, plant and equipment	26,824,272	68,218,933	45,615,852	2,283,138	142,942,195	16,772
Less accumulated depreciation	<u>(18,863,844)</u>	<u>(17,409,409)</u>	<u>(17,117,239)</u>	<u>(1,599,707)</u>	<u>(54,990,199)</u>	<u>(15,613)</u>
Total noncurrent assets	<u>8,211,818</u>	<u>54,302,955</u>	<u>29,042,276</u>	<u>683,431</u>	<u>92,240,480</u>	<u>1,159</u>
Total assets	<u>14,749,588</u>	<u>61,825,201</u>	<u>33,654,050</u>	<u>3,525,088</u>	<u>113,753,927</u>	<u>1,730,207</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	299,574	342,035	293,254	210,100	1,144,963	60,052
Defeasance on refunding	-	8,481	-	-	8,481	-
Total deferred outflows of resources	<u>299,574</u>	<u>350,516</u>	<u>293,254</u>	<u>210,100</u>	<u>1,153,444</u>	<u>60,052</u>
Total assets and deferred outflows of resources	<u>\$ 15,049,162</u>	<u>\$ 62,175,717</u>	<u>\$ 33,947,304</u>	<u>\$ 3,735,188</u>	<u>\$ 114,907,371</u>	<u>\$ 1,790,259</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 354,318	\$ 77,953	\$ 88,628	\$ 99,907	\$ 620,806	\$ 4,367
Due to other funds	43,937	612,996	429,031	32,215	1,118,179	1,562,537
Accrued interest payable	4,838	145,575	16,361	206	166,980	-
Other current liabilities	148,480	104,210	91,326	65,188	409,204	40,400
Current portion of long-term debt	<u>22,897</u>	<u>762,000</u>	<u>652,156</u>	<u>35,110</u>	<u>1,472,163</u>	<u>-</u>
Total current liabilities	<u>574,470</u>	<u>1,702,734</u>	<u>1,277,502</u>	<u>232,626</u>	<u>3,787,332</u>	<u>1,607,304</u>
Noncurrent liabilities						
Notes payable	794,029	4,190,000	2,154,274	141,375	7,279,678	-
Revenue bonds payable	-	14,093,295	8,273,095	-	22,366,390	-
Net pension liability	<u>1,658,113</u>	<u>1,845,686</u>	<u>1,523,713</u>	<u>1,086,582</u>	<u>6,114,094</u>	<u>315,063</u>
Total noncurrent liabilities	<u>2,452,142</u>	<u>20,128,981</u>	<u>11,951,082</u>	<u>1,227,957</u>	<u>35,760,162</u>	<u>315,063</u>
Total liabilities	<u>3,026,612</u>	<u>21,831,715</u>	<u>13,228,584</u>	<u>1,460,583</u>	<u>39,547,494</u>	<u>1,922,367</u>
NET POSITION						
Net invested in capital assets	7,394,892	32,552,539	17,660,585	506,946	58,114,962	1,159
Restricted for debt service	23,413	1,598,470	302,166	-	1,924,049	-
Restricted for construction	-	1,106,651	-	-	1,106,651	-
Unrestricted	<u>4,604,245</u>	<u>5,086,342</u>	<u>2,755,969</u>	<u>1,767,659</u>	<u>14,214,215</u>	<u>(133,267)</u>
Total net position	<u>12,022,550</u>	<u>40,344,002</u>	<u>20,718,720</u>	<u>2,274,605</u>	<u>75,359,877</u>	<u>(132,108)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,049,162</u>	<u>\$ 62,175,717</u>	<u>\$ 33,947,304</u>	<u>\$ 3,735,188</u>	<u>\$ 114,907,371</u>	<u>\$ 1,790,259</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, 2016

	Business-Type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
Operating revenues						
Sales to customers	\$ 9,599,546	\$ 6,928,378	\$ 2,533,627	\$ 3,605,902	\$ 22,667,453	\$ -
Transportation/surcharges	1,418,229	74,445	19,371	-	1,512,045	-
Other operating revenues	449,751	9,424	190,155	48,736	698,066	-
Total operating revenues	11,467,526	7,012,247	2,743,153	3,654,638	24,877,564	-
Operating expenses						
Gas purchases, net of refunds	5,734,851	-	-	-	5,734,851	-
Other operating expenses	2,234,570	2,901,382	2,006,834	2,245,744	9,388,530	386,681
Maintenance	511,186	302,769	221,962	179,031	1,214,948	22,905
Depreciation	445,071	1,405,847	1,008,863	89,977	2,949,758	1,930
Amortization	-	9,022	-	-	9,022	-
Total operating expenses	8,925,678	4,619,020	3,237,659	2,514,752	19,297,109	411,516
Operating income (loss)	2,541,848	2,393,227	(494,506)	1,139,886	5,580,455	(411,516)
Nonoperating revenues (expenses)						
Interest and investment revenue	9,263	14,005	19,942	3,693	46,903	2,491
Interest expense	(30,400)	(488,241)	(192,854)	(1,562)	(713,057)	-
Total nonoperating revenues (expenses)	(21,137)	(474,236)	(172,912)	2,131	(666,154)	2,491
Income (loss) before capital contributions and transfers	2,520,711	1,918,991	(667,418)	1,142,017	4,914,301	(409,025)
Transfers in (out)	(2,051,500)	(2,601,500)	(101,500)	(251,500)	(5,006,000)	406,000
Capital contributions						
Grant revenues	-	-	43,383	-	43,383	-
Change in net position	469,211	(682,509)	(725,535)	890,517	(48,316)	(3,025)
Total net position-beginning, as restated	11,553,339	41,026,511	21,444,255	1,384,088	75,408,193	(129,083)
TOTAL NET POSITION-ENDING	\$ 12,022,550	\$ 40,344,002	\$ 20,718,720	\$ 2,274,605	\$ 75,359,877	\$ (132,108)

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, 2016

	<u>Business-Type Activities</u>				<u>Total</u>	<u>Internal Service Fund</u>
	<u>Gas Department</u>	<u>Water Department</u>	<u>Wastewater Department</u>	<u>Sanitation Department</u>		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 11,346,862	\$ 6,975,142	\$ 3,176,916	\$ 3,564,737	\$ 25,063,657	\$ -
Cash payments to suppliers for goods and services	(6,965,446)	(1,618,742)	(896,923)	(1,357,624)	(10,838,735)	(197,436)
Cash payments to employees	(1,211,753)	(1,364,757)	(1,209,920)	(968,265)	(4,754,695)	(250,193)
Other operating revenues	449,751	9,424	190,155	48,736	698,066	-
Net cash provided (used) by operating activities	<u>3,619,414</u>	<u>4,001,067</u>	<u>1,260,228</u>	<u>1,287,584</u>	<u>10,168,293</u>	<u>(447,629)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Receipts (payments) on interfund loans	(2,435,392)	(98,380)	191,199	(1,239,319)	(3,581,892)	1,535,884
Transfers (to) from other funds	(2,051,500)	(2,601,500)	(101,500)	(251,500)	(5,006,000)	406,000
Net cash provided (used) by non-capital financing activities	<u>(4,486,892)</u>	<u>(2,699,880)</u>	<u>89,699</u>	<u>(1,490,819)</u>	<u>(8,587,892)</u>	<u>1,941,884</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on bonds and notes	(1,436)	(764,098)	(607,080)	(8,615)	(1,381,229)	-
Interest paid on bonds and notes	(30,443)	(491,041)	(195,304)	(1,356)	(718,144)	-
Proceeds from issuance of debt	-	-	-	185,100	185,100	-
Acquisition and construction of capital assets	(279,050)	(107,280)	(537,800)	(185,400)	(1,109,530)	-
Contributed capital	-	-	43,383	-	43,383	-
Net cash (used) by capital and related financing activities	<u>(310,929)</u>	<u>(1,362,419)</u>	<u>(1,296,801)</u>	<u>(10,271)</u>	<u>(2,980,420)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	9,261	14,123	20,834	3,761	47,979	2,491
Net cash provided by investing activities	<u>9,261</u>	<u>14,123</u>	<u>20,834</u>	<u>3,761</u>	<u>47,979</u>	<u>2,491</u>
Net increase (decrease) in cash and cash equivalents	(1,169,146)	(47,109)	73,960	(209,745)	(1,352,040)	1,496,746
Balances-beginning 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>
BALANCES-END OF THE YEAR	<u>\$ 1,768,413</u>	<u>\$ 2,120,108</u>	<u>\$ 445,663</u>	<u>\$ 688,912</u>	<u>\$ 5,023,096</u>	<u>\$ 1,663,123</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss):	\$ 2,541,848	\$ 2,393,227	\$ (494,506)	\$ 1,139,886	\$ 5,580,455	\$ (411,516)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	445,071	1,405,847	1,008,863	89,977	2,949,758	1,930
Amortization expense	-	9,022	-	-	9,022	-
Net pension liability activity	115,122	144,293	139,625	101,409	500,449	27,769
Change in assets and liabilities:						
Receivables, net	329,087	(27,681)	623,918	(41,165)	884,159	(61,252)
Inventory	76,995	46,482	3,114	-	126,591	-
Prepaid expenses	12,866	13,378	12,793	10,193	49,230	2,391
Accounts payable	87,429	16,779	22,475	992	127,675	(31,641)
Other liabilities	10,996	(280)	(56,054)	(13,708)	(59,046)	24,690
Net cash provided (used) by operating activities	<u>\$ 3,619,414</u>	<u>\$ 4,001,067</u>	<u>\$ 1,260,228</u>	<u>\$ 1,287,584</u>	<u>\$ 10,168,293</u>	<u>\$ (447,629)</u>
Supplemental disclosure of cash flow information:						
Noncash capital and related financing activities:						
Payables for capital items, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (276,632)</u>	<u>\$ -</u>	<u>\$ (276,632)</u>	<u>\$ -</u>

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 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 interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, fund 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, 2016

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.

Special Revenue – 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, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Additionally, the City reports the following fund type:

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

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

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

D. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts that can be used only for specific purposes determined by a formal action of the City Council. The council is the highest level of decision-making authority for the City of Somerset. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the council.

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

Unassigned - for the general fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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	\$ 12,857	\$ -	\$ 18,629	\$ 68,305	\$ -	\$ 15,199	\$ 114,990
Prepays	5,610	2,248	2,564	375	-	18,364	29,161
Restricted	259,619	-	50,977	-	149,288	357,728	817,612
Committed	-	-	-	-	-	282,834	282,834
Unassigned	<u>1,376,560</u>	<u>(29,291)</u>	<u>(4,490,563)</u>	<u>163,201</u>	<u>-</u>	<u>(389,513)</u>	<u>(3,369,606)</u>
Total	<u>\$ 1,654,646</u>	<u>\$ (27,043)</u>	<u>\$ (4,418,393)</u>	<u>\$ 231,881</u>	<u>\$ 149,288</u>	<u>\$ 284,612</u>	<u>\$ (2,125,009)</u>

E. Pensions

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

F. Assets, Liabilities and Net Position or Fund Balance

Deposits and Investments

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Interfund Receivables and Payables

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

Inventories

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

Accounts Receivable

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

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

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

Capital Assets and Depreciation

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets and Depreciation (continued)

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

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

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

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, 2016

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 expenditures by \$708,242 in the EMS Fund.

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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 18, 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, 2016, 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 for the primary government and the discretely presented component unit at June 30, 2016 are as follows:

Carrying amount	\$ 17,863,453
Bank balance	\$ 18,138,394
FDIC Insurance	\$ 2,860,207
Bank Deposit Guaranty Bond	\$ 685,595
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	\$ 14,448,082
Uninsured and uncollateralized	\$ 144,510

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, 2016 were all certificates of deposit with local financial institutions.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2016 for all funds of the City are as follows:

	Accounts	Taxes	Licenses & Permits	Grants	Other	Allowance	Total
General Fund	\$ -	\$ 68,884	\$ 1,304,937	\$ 32,314	\$ 77,036	\$ -	\$ 1,483,171
EMS Fund	3,758,586	-	-	-	-	(2,973,254)	785,332
Fuel Center	-	-	-	-	13,510	-	13,510
Waterpark	198,249	-	-	-	-	-	198,249
Other Gov.	-	-	-	-	73,708	-	73,708
Internal Serv.	-	-	-	-	64,600	-	64,600
Gas	833,887	-	-	-	-	(39,575)	794,312
Water	648,804	-	-	-	-	(12,049)	636,755
Wastewater	312,306	-	-	-	-	-	312,306
Sanitation	<u>413,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,401)</u>	<u>411,608</u>
Totals	<u>\$ 6,164,841</u>	<u>\$ 68,884</u>	<u>\$ 1,304,937</u>	<u>\$ 32,314</u>	<u>\$ 228,854</u>	<u>\$ (3,026,279)</u>	<u>\$ 4,773,551</u>

4. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2016 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, 2016 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Gas Department	\$ 40,806
General Fund	Water Department	610,366
General Fund	Wastewater Department	425,203
General Fund	Sanitation Department	25,694
General Fund	Internal Service Fund	6,621
Fuel Center Fund	Gas Department	3,130
Fuel Center Fund	Water Department	1,876
Fuel Center Fund	Wastewater Department	2,990
Fuel Center Fund	Sanitation Department	5,928
Gas Department	General Fund	(3,346,990)
Gas Department	Fuel Center Fund	(39)
Gas Department	Waterpark	(39)
Water Department	General Fund	(3,931,184)
Water Department	Waterpark	(1,300,000)
Wastewater Department	General Fund	(28,956)
Sanitation Department	Parks and Rec.	(222)
Sanitation Department	General Fund	<u>(807,541)</u>
Internal Balances, Net		<u>\$ (8,292,357)</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Parks & Recreation	\$ 265,699
General Fund	EMS Fund	1,119,348
General Fund	Coal & Mineral Severance	207,881
General Fund	Municipal Aid Fund	7,912
General Fund	Cemetery Fund	4,254
General Fund	Waterpark	3,393,028
General Fund	Fuel Center Fund	1,355
General Fund	Tourism & Travel	3,598
Parks & Rec.	Tourism & Travel	38
Fuel Center Fund	General Fund	16,543
Fuel Center Fund	Parks & Recreation	916
Fuel Center Fund	Waterpark	353
Fuel Center Fund	EMS Fund	7,714
Fuel Center Fund	Tourism & Travel	52
Waterpark	General Fund	7,173
Gas Department	Wastewater Department	635
Gas Department	Water Department	755
Gas Department	Internal Service Fund	340,430
Sanitation	Internal Service Fund	332,488
Water Department	Wastewater Department	203
Water Department	Internal Service Fund	627,745
Wastewater Department	Internal Service Fund	255,253
Internal Service Fund	Wastewater Department	593

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CAPITAL ASSETS

A summary of changes in City's capital assets during the year ended June 30, 2016 is as follows:

	June 30, 2015	Additions/ Transfers	Disposals/ Transfers	June 30, 2016
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 2,221,797	\$ -	\$ -	\$ 2,221,797
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>6,064,027</u>	<u>4,921,876</u>	<u>10,931,494</u>	<u>54,409</u>
Totals	<u>8,296,892</u>	<u>4,921,876</u>	<u>10,931,494</u>	<u>2,287,274</u>
Capital assets that are depreciated:				
Infrastructure	35,951,563	-	-	35,951,563
Building and improvements	9,899,850	10,897,860	-	20,797,710
Vehicles	5,295,994	262,745	208,706	5,350,033
Equipment	2,350,802	-	10,500	2,340,302
Office equipment	1,009,686	-	-	1,009,686
Land improvements	<u>1,222,446</u>	<u>41,744</u>	<u>-</u>	<u>1,264,190</u>
Totals	<u>55,730,341</u>	<u>11,202,349</u>	<u>219,206</u>	<u>66,713,484</u>
Total capital assets	<u>64,027,233</u>	<u>16,124,225</u>	<u>11,150,700</u>	<u>69,000,758</u>
Accumulated depreciation:				
Infrastructure	18,806,918	1,053,970	-	19,860,888
Buildings and improvements	3,063,228	364,882	-	3,428,110
Vehicles	4,140,162	315,897	200,556	4,255,503
Equipment	1,789,353	83,003	9,000	1,863,356
Office equipment	901,781	53,149	-	954,930
Land improvements	<u>798,589</u>	<u>58,884</u>	<u>-</u>	<u>857,473</u>
Totals	<u>29,500,031</u>	<u>1,929,785</u>	<u>209,556</u>	<u>31,220,260</u>
Capital Assets, Net	<u>\$ 34,527,202</u>	<u>\$ 14,194,440</u>	<u>\$ 10,941,144</u>	<u>\$ 37,780,498</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CAPITAL ASSETS, (CONTINUED)

	June 30, 2015	Additions/ Transfers	Disposals/ Transfers	June 30, 2016
Business-Type Activities				
Capital assets not depreciated:				
Land	\$ 904,933	\$ -	\$ -	\$ 904,933
Right of way and easements	122,022	25,000	-	147,022
Construction in progress	<u>2,951,162</u>	<u>497,537</u>	<u>3,306,737</u>	<u>141,962</u>
Totals	<u>3,978,117</u>	<u>522,537</u>	<u>3,306,737</u>	<u>1,193,917</u>
Capital assets that are depreciated:				
Utility plant and dist. system	83,816,989	3,346,870	-	87,163,859
Building and improvements	49,279,700	-	-	49,279,700
Vehicles	2,888,927	220,268	-	3,109,195
Equipment	2,441,794	49,960	-	2,491,754
Office equipment	864,195	-	-	864,195
Land improvements	<u>50,266</u>	<u>-</u>	<u>-</u>	<u>50,266</u>
Totals	<u>139,341,871</u>	<u>3,617,098</u>	<u>-</u>	<u>142,958,969</u>
Total capital assets	<u>143,319,988</u>	<u>4,139,635</u>	<u>3,306,737</u>	<u>144,152,886</u>
Accumulated depreciation:				
Utility plant and dist. system	37,063,286	1,699,684	-	38,762,970
Buildings and Improvements	10,333,764	997,746	-	11,331,510
Vehicles	2,159,024	124,586	-	2,283,610
Equipment	2,004,013	102,091	-	2,106,104
Office Equipment	464,699	24,160	-	488,859
Land Improvements	<u>29,340</u>	<u>3,421</u>	<u>-</u>	<u>32,761</u>
Totals	<u>52,054,126</u>	<u>2,951,688</u>	<u>-</u>	<u>55,005,814</u>
Capital Assets, Net	<u>\$ 91,265,862</u>	<u>\$ 1,187,947</u>	<u>\$ 3,306,737</u>	<u>\$ 89,147,072</u>
Primary Government				
Capital Assets, Net	<u>\$ 125,793,064</u>	<u>\$ 15,382,387</u>	<u>\$ 14,247,881</u>	<u>\$ 126,927,570</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

5. CAPITAL ASSETS, (CONTINUED)

Component Unit	June 30, 2015	Additions/ Transfers	Disposals/ Transfers	June 30, 2016
Capital assets not depreciated:				
Land	\$ 71,000	\$ -	\$ -	\$ 71,000
Construction in progress	<u>263,871</u>	<u>-</u>	<u>-</u>	<u>263,871</u>
Totals	<u>334,871</u>	<u>-</u>	<u>-</u>	<u>334,871</u>
Capital assets that are depreciated:				
Building and improvements	298,249	-	-	298,249
Equipment	102,489	1,337	-	103,826
Office equipment	40,452	-	-	40,452
Land improvements	<u>199,154</u>	<u>-</u>	<u>-</u>	<u>199,154</u>
Totals	<u>640,344</u>	<u>1,337</u>	<u>-</u>	<u>641,681</u>
Total capital assets	<u>975,215</u>	<u>1,337</u>	<u>-</u>	<u>976,552</u>
Accumulated Depreciation				
Buildings and Improvements	202,112	24,046	-	226,158
Equipment	134,317	2,778	-	137,095
Office Equipment	100,010	-	-	100,010
Land Improvements	<u>20,523</u>	<u>-</u>	<u>-</u>	<u>20,523</u>
Totals	<u>456,962</u>	<u>26,824</u>	<u>-</u>	<u>483,786</u>
Capital Assets, Net	<u>\$ 518,253</u>	<u>\$ (25,487)</u>	<u>\$ -</u>	<u>\$ 492,766</u>

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

Primary Government

Governmental Activities

Waterpark	\$ 711,477
Streets	553,917
Public Safety	208,330
General Government	173,432
Emergency Medical Services	142,697
Parks and Recreation	106,382
Fuel Center	30,324
Cemetery	2,784
Intergovernmental Programs	442
	<u>\$ 1,929,785</u>

Business-Type Activities

Water	\$ 1,405,847
Wastewater	1,008,863
Gas	445,071
Sanitation	89,977
Internal Service	<u>1,930</u>
	<u>\$ 2,951,688</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2016:

Description and Purpose	Balance June 30, 2015	Issued	Retired	June 30, 2016	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	\$ 1,375,000	\$ -	\$ 700,000	\$ 675,000	\$ 220,000
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	4,976,785	-	-	4,976,785	135,577
Series 2015A with interest at 3.25% maturing in fiscal year 2054	-	8,500,000	-	8,500,000	110,500
Series 2015B with interest at 3.25% maturing in fiscal year 2054	-	850,000	-	850,000	10,000
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>46,661</u>
Net Pension Liability	<u>\$ 14,718,621</u>	<u>\$ 4,417,488</u>	<u>\$ -</u>	<u>\$ 19,136,109</u>	<u>\$ -</u>
Total governmental activities	<u>\$ 32,133,260</u>	<u>\$ 13,767,488</u>	<u>\$ 10,050,000</u>	<u>\$ 35,850,748</u>	<u>\$ 522,738</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. LONG-TERM DEBT (CONTINUED)

Description and Purpose	Balance June 30, 2015	Issued	Retired	June 30, 2016	Due within One year
<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	\$ 21,431
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	<u>31,677</u>	<u>-</u>	<u>1,437</u>	<u>30,240</u>	<u>1,466</u>
Total Gas Department	<u>818,363</u>	<u>-</u>	<u>1,437</u>	<u>816,926</u>	<u>22,897</u>
Water Department					
Series 2012 GO with interest at 2%, maturing in fiscal year 2019	1,500,000	-	365,000	1,135,000	370,000
Original issue premium	50,393	-	12,598	37,795	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	8,851,500	-	152,000	8,699,500	155,500
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,917,500	-	84,500	4,833,000	86,500
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	<u>4,490,000</u>	<u>-</u>	<u>150,000</u>	<u>4,340,000</u>	<u>150,000</u>
Total Water Department	<u>19,809,393</u>	<u>-</u>	<u>764,098</u>	<u>19,045,295</u>	<u>762,000</u>
Wastewater Department					
KIA note with interest at 1.2%, maturing in fiscal year 2018	435,951	-	143,582	292,369	145,310
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	1,333,675	-	-	1,333,675	36,332
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	7,582,618	-	375,083	7,207,535	378,843
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	358,700	-	16,275	342,425	16,603

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

6. LONG-TERM DEBT (CONTINUED)

Business-Type Activities, continued

Wastewater Department, continued

Description and Purpose	June 30, 2015	Issued	Retired	June 30, 2016	Due within One year
Note payable to local bank with interest at 3.25% and adjusting after 60 months to a Prime Rate, maturing in fiscal year 2035	<u>1,975,660</u>	-	<u>72,139</u>	<u>1,903,521</u>	<u>75,068</u>
Total Wastewater Department	<u>11,686,604</u>	-	<u>607,079</u>	<u>11,079,525</u>	<u>652,156</u>

Sanitation Department

Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	-	<u>185,100</u>	<u>8,615</u>	<u>176,485</u>	<u>35,110</u>
Total Sanitation Department	-	<u>185,100</u>	<u>8,615</u>	<u>176,485</u>	<u>35,110</u>

Net Pension Liability	<u>\$ 4,729,564</u>	<u>\$ 1,699,593</u>	<u>\$ -</u>	<u>\$ 6,429,157</u>	<u>\$ -</u>
Total Business-type activities	<u>37,043,924</u>	<u>1,884,693</u>	<u>1,381,229</u>	<u>37,547,388</u>	<u>1,472,163</u>

Total primary government **\$ 69,177,184** **\$ 15,652,181** **\$ 11,431,229** **\$ 73,398,136** **\$ 1,994,901**

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	786,686
Wastewater department	<u>1,333,675</u>
Total	<u>\$ 8,810,000</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, 2016

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
2017	\$ 522,738	\$ 567,419	\$ 1,090,157
2018	534,831	553,169	1,088,000
2019	550,034	536,579	1,086,613
2020	509,365	520,360	1,029,725
2021	525,255	504,114	1,029,369
2022-2026	2,916,885	2,230,327	5,147,212
2027-2031	3,537,462	1,626,396	5,163,858
2032-2036	1,685,069	1,067,730	2,752,799
2037-2041	1,295,500	861,811	2,157,311
2042-2046	1,542,500	631,759	2,174,259
2047-2051	1,835,500	357,931	2,193,431
2052-2054	<u>1,259,500</u>	<u>62,181</u>	<u>1,321,681</u>
	<u>\$ 16,714,639</u>	<u>\$ 9,519,776</u>	<u>\$ 26,234,415</u>

Business-Type Activities

Year ended	Principal	Interest	Total
2017	\$ 1,472,163	\$ 723,654	\$ 2,195,817
2018	1,505,054	694,692	2,199,746
2019	1,380,189	664,893	2,045,082
2020	1,074,921	639,107	1,714,028
2021	1,087,601	682,807	1,770,408
2022-2026	5,672,092	2,700,935	8,373,027
2027-2031	6,399,967	1,966,292	8,366,259
2032-2036	5,063,949	1,163,013	6,226,962
2037-2041	2,031,000	704,554	2,735,554
2042-2046	2,283,500	478,306	2,761,806
2047-2051	2,567,000	223,869	2,790,869
2052	<u>543,000</u>	<u>11,539</u>	<u>554,539</u>
Unamortized premium	<u>37,795</u>	<u>-</u>	<u>37,795</u>
	<u>\$ 31,118,231</u>	<u>\$ 10,653,661</u>	<u>\$ 41,771,892</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, 2016 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the various utility funds. At June 30, 2016, 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, 2016

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, 2016, 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, 2016, participating employers contributed 17.06% of each employee's wages for non-hazardous job classifications and 32.95% 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, 2016, the City contributed \$999,580, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$727,713 to the CERS pension fund and \$271,867 to the CERS insurance fund. The City contributed \$1,503,508, or 100% of the required contribution for hazardous job classifications, which was allocated \$924,463 to the CERS pension fund and \$579,045 to the CERS insurance fund.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. RETIREMENT PLAN (CONTINUED)

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers based on hire date:

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

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

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 25,565,266</u>	<u>\$ 11,416,098</u>	<u>\$ 14,149,168</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2016 was as follows:

Non-hazardous	Hazardous
.266%	.922%

The proportionate share at June 30, 2016 relative to June 30, 2015 increased for non-hazardous by .009% and decreased for hazardous by .001%.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2016, the City recognized pension expense of \$2,723,176. At June 30, 2016, 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	\$ 402,184	\$ -
Changes of assumptions	2,373,907	-
Net difference between projected and actual earnings on Plan investments	191,192	-
Changes in proportion and differences between City contributions and proportionate share of contributions	210,310	18,148
City contributions subsequent to the measurement date	<u>1,652,176</u>	<u>-</u>
Total	<u>\$ 4,829,769</u>	<u>\$ 18,148</u>

The \$1,652,176 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,	
2017	\$ 891,248
2018	891,248
2019	606,937
2020	770,012

Actuarial Assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

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

Hazardous

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

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. RETIREMENT PLAN (CONTINUED)

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

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

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

7. RETIREMENT PLAN (CONTINUED)

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

	Non-hazardous		Hazardous	
	City's proportionate share of net		City's proportionate share of net	
	Discount rate	pension liability	Discount rate	pension liability
1% decrease	6.50%	\$ 14,574,064	6.50%	\$ 18,111,405
Current discount rate	7.50%	\$ 11,416,098	7.50%	\$ 14,149,168
1% increase	8.50%	\$ 8,711,576	8.50%	\$ 10,866,353

Payable to the Pension Plan – At June 30, 2016, the City reported a payable of \$393,563 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016. The payable includes both the pension and insurance contribution allocation.

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2016 were levied in September, 2015 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

9. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General Operations	\$ 729,250
General	Waterpark	Debt Service	\$ 64,412
General	Capital Projects	Construction	\$ 1,175,926
Gas	General	General operations	\$ 1,000,000
Gas	General	General operations	\$ 900,000
Gas	General	Indirect cost reimbursement	\$ 50,000
Gas	Internal Service	General operations	\$ 101,500
Sanitation	Internal Service	General operations	\$ 101,500
Sanitation	Waterpark	General operations	\$ 150,000
Water	General	General operations	\$ 1,500,000
Water	General	General operations	\$ 950,000
Water	General	General operations	\$ 50,000
Water	Internal Service	General operations	\$ 101,500
Wastewater	Internal Service	General operations	\$ 101,500

10. CONDUIT DEBT

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

11. LEGAL CONTINGENCIES

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

12. RISK MANAGEMENT

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

13. RESTATEMENT OF NET POSITION

General Fund and Wastewater Fund

The beginning net position of both governmental and business-type activities has been restated due to the reclassification of a transfer in the prior year that was recorded as an interfund payable between the General Fund and Wastewater Fund. The beginning fund balance of the General Fund and beginning net position of the Wastewater Fund has also been restated on the fund financial statements. The effect of this restatement on beginning net position and fund balance is outlined below.

Governmental Activities

Net position, at beginning of year	\$ 3,706,645
Interfund payable reclassification	<u>667,836</u>
Net position, at beginning of year, as restated	<u>\$ 4,374,481</u>

Business-Type Activities

Net position, at beginning of year	\$ 75,946,946
Interfund receivable reclassification	<u>(667,836)</u>
Net position, at beginning of year, as restated	<u>\$ 75,279,110</u>

Governmental Funds - General Fund Balance

Fund balance at beginning of year	\$ 870,801
Interfund payable reclassification	<u>667,836</u>
Fund balance, at beginning of year, as restated	<u>\$ 1,538,637</u>

Proprietary Funds - Wastewater Fund Net Position

Net Position at beginning of year	\$ 22,112,091
Interfund receivable reclassification	<u>(667,836)</u>
Net Position, at beginning of year, as restated	<u>\$ 21,444,255</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes	\$ 1,320,000	\$ 1,320,000	\$ 1,426,815	\$ 106,815
Licenses and permits	4,988,000	4,988,000	6,902,177	1,914,177
Fines and forfeits	7,000	7,000	14,744	7,744
Intergovernmental revenues	439,700	439,700	472,813	33,113
Interest income	15,000	15,000	15,969	969
Other revenues	163,800	163,800	93,995	(69,805)
TOTAL REVENUES	<u>6,933,500</u>	<u>6,933,500</u>	<u>8,926,513</u>	<u>1,993,013</u>
EXPENDITURES				
General government	3,622,750	3,622,750	3,518,333	(104,417)
Public safety	6,015,450	6,015,450	5,707,347	(308,103)
Public services	284,325	284,325	135,926	(148,399)
Streets	928,000	928,000	804,677	(123,323)
Downtown revitalization	45,870	45,870	45,870	-
Intergovernmental programs	148,700	148,700	144,236	(4,464)
Capital outlay	606,000	606,000	50,197	(555,803)
Debt service - principal	700,000	700,000	700,000	-
Debt service - interest	223,000	223,000	210,603	(12,397)
TOTAL EXPENDITURES	<u>12,574,095</u>	<u>12,574,095</u>	<u>11,317,189</u>	<u>(1,256,906)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	26,273	26,273
Transfer from other funds	4,525,000	4,525,000	4,349,998	(175,002)
Transfer to other funds	(1,103,500)	(1,103,500)	(1,869,586)	(766,086)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,421,500</u>	<u>3,421,500</u>	<u>2,506,685</u>	<u>(914,815)</u>
NET CHANGE IN FUND BALANCES	(2,219,095)	(2,219,095)	116,009	2,335,104
FUND BALANCES, BEGINNING OF YEAR	<u>1,538,637</u>	<u>1,538,637</u>	<u>1,538,637</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (680,458)</u>	<u>\$ (680,458)</u>	<u>\$ 1,654,646</u>	<u>\$ 2,335,104</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
EMS FUND
for the year ended June 30, 2016

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 2,515,000	\$ 2,615,000	\$ 3,607,950	\$ 992,950
Intergovernmental revenues	1,911,936	1,911,936	1,370,507	(541,429)
Interest income	400	400	1,200	800
Other revenues	<u>20,000</u>	<u>20,000</u>	<u>20,926</u>	<u>926</u>
TOTAL REVENUES	<u>4,447,336</u>	<u>4,547,336</u>	<u>5,000,583</u>	<u>453,247</u>
EXPENDITURES				
Emergency medical services	4,197,900	4,197,900	5,035,685	837,785
Capital outlay	<u>226,436</u>	<u>326,436</u>	<u>196,893</u>	<u>(129,543)</u>
TOTAL EXPENDITURES	<u>4,424,336</u>	<u>4,524,336</u>	<u>5,232,578</u>	<u>708,242</u>
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	<u>(53,000)</u>	<u>(53,000)</u>	<u>-</u>	<u>53,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(53,000)</u>	<u>(53,000)</u>	<u>-</u>	<u>53,000</u>
NET CHANGE IN FUND BALANCES	(30,000)	(30,000)	(231,995)	(201,995)
FUND BALANCES, BEGINNING OF YEAR	<u>204,952</u>	<u>204,952</u>	<u>204,952</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 174,952</u>	<u>\$ 174,952</u>	<u>\$ (27,043)</u>	<u>\$ (201,995)</u>

Note 1: \$834,486 was charged to bad debt expense which is included in total emergency medical services expenditures. Bad debt expense was not included in the enacted or amended budget.

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
WATERPARK FUND
for the year ended June 30, 2016**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,109,000	\$ 1,109,000	\$ 1,216,673	\$ 107,673
Interest income	250	250	648	398
Other revenues	<u>54,250</u>	<u>54,250</u>	<u>33,272</u>	<u>(20,978)</u>
TOTAL REVENUES	<u>1,163,500</u>	<u>1,163,500</u>	<u>1,250,593</u>	<u>87,093</u>
EXPENDITURES				
Waterpark	1,281,300	1,281,300	1,177,369	(103,931)
Debt service - interest	-	-	64,412	64,412
Capital outlay	<u>118,500</u>	<u>118,500</u>	<u>-</u>	<u>(118,500)</u>
TOTAL EXPENDITURES	<u>1,399,800</u>	<u>1,399,800</u>	<u>1,241,781</u>	<u>(158,019)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>236,300</u>	<u>236,300</u>	<u>214,412</u>	<u>(21,888)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>236,300</u>	<u>236,300</u>	<u>214,412</u>	<u>(21,888)</u>
NET CHANGE IN FUND BALANCES	-	-	223,224	223,224
FUND BALANCES, BEGINNING OF YEAR	<u>(4,641,617)</u>	<u>(4,641,617)</u>	<u>(4,641,617)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (4,641,617)</u>	<u>\$ (4,641,617)</u>	<u>\$ (4,418,393)</u>	<u>\$ 223,224</u>

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTAL BUDGETARY COMPARISON
FUEL CENTER FUND
for the year ended June 30, 2016**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 217,100	\$ 950,000	\$ 962,253	\$ 12,253
Interest income	-	1,000	1,078	78
Other revenues	-	450	-	(450)
TOTAL REVENUES	<u>217,100</u>	<u>951,450</u>	<u>963,331</u>	<u>11,881</u>
EXPENDITURES				
Fuel center	214,600	948,950	941,527	(7,423)
Capital outlay	2,500	2,500	-	(2,500)
TOTAL EXPENDITURES	<u>217,100</u>	<u>951,450</u>	<u>941,527</u>	<u>(9,923)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	21,804	21,804
FUND BALANCES, BEGINNING OF YEAR	<u>210,077</u>	<u>210,077</u>	<u>210,077</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 210,077</u>	<u>\$ 210,077</u>	<u>\$ 231,881</u>	<u>\$ 21,804</u>

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

	2014	2015	2016
City's proportion of the net pension liability	0.257%	0.257%	0.266%
City's proportionate share of the net pension liability (asset)	\$ 9,448,091	\$ 8,349,736	\$ 11,416,098
City's covered employee payroll	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	161.18%	132.25%	194.84%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

	2014		2015		2016
City's proportion of the net pension liability	0.923%		0.923%		0.922%
City's proportionate share of the net pension liability (asset)	\$ 12,345,466	\$	11,098,449	\$	14,149,168
City's covered employee payroll	\$ 4,681,614	\$	4,822,081	\$	4,556,589
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	263.70%		230.16%		310.52%
Plan fiduciary net position as a percentage of the total pension liability	57.74%		63.46%		57.52%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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 Four Fiscal Years**

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

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2015 valuation:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).

For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

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.

SUPPLEMENTAL INFORMATION

**CITY OF SOMERSET, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2016**

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2016 Total
ASSETS						
Cash and cash equivalents	\$ 158,524	\$ 109,191	\$ 27,744	\$ 281,263	\$ 165,046	\$ 741,768
Accounts receivable	25,516	119	6,817	12,524	28,732	73,708
Inventory	-	1,999	-	13,200	-	15,199
Prepaid expenses	-	5,812	-	30	12,522	18,364
Due from other fund	-	38	-	-	-	38
Total assets	<u>\$ 184,040</u>	<u>\$ 117,159</u>	<u>\$ 34,561</u>	<u>\$ 307,017</u>	<u>\$ 206,300</u>	<u>\$ 849,077</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ -	\$ 16,178	\$ -	\$ 3,109	\$ 6,350	\$ 25,637
Due to other fund	7,912	266,837	207,881	4,254	3,688	490,572
Other current liabilities	-	42,526	-	3,590	2,140	48,256
Total liabilities	7,912	325,541	207,881	10,953	12,178	564,465
Fund balance	<u>176,128</u>	<u>(208,382)</u>	<u>(173,320)</u>	<u>296,064</u>	<u>194,122</u>	<u>284,612</u>
Total liabilities and fund balances	<u>\$ 184,040</u>	<u>\$ 117,159</u>	<u>\$ 34,561</u>	<u>\$ 307,017</u>	<u>\$ 206,300</u>	<u>\$ 849,077</u>

CITY OF SOMERSET, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2016

	<u>Municipal Aid Projects Fund</u>	<u>Parks & Recreation Fund</u>	<u>Coal & Mineral Severance Fund</u>	<u>Cemetery Fund</u>	<u>Travel & Tourism Fund</u>	<u>2016 Total</u>
REVENUES						
Intergovernmental revenues	\$ 215,691	\$ -	\$ 30,805	\$ -	\$ 267,160	\$ 513,656
Charges for services	-	152,050	-	25,480	-	177,530
Interest income	2,125	67	179	1,684	-	4,055
Other revenues	-	8,400	-	3,793	36,775	48,968
	<u>217,816</u>	<u>160,517</u>	<u>30,984</u>	<u>30,957</u>	<u>303,935</u>	<u>744,209</u>
Total revenues						
EXPENDITURES						
Current						
Streets	297,950	-	92,613	-	-	390,563
Parks and recreation	-	1,021,961	-	-	-	1,021,961
Cemetery	-	-	-	74,586	-	74,586
Travel and tourism	-	-	-	-	361,217	361,217
Capital outlay	-	22,265	-	-	-	22,265
Debt Service	-	-	-	-	-	-
	<u>297,950</u>	<u>1,044,226</u>	<u>92,613</u>	<u>74,586</u>	<u>361,217</u>	<u>1,870,592</u>
Total expenditures						
Excess revenues over (under) expenditures before other sources (uses)	(80,134)	(883,709)	(61,629)	(43,629)	(57,282)	(1,126,383)
Other financing sources						
Transfers from (to) other funds	-	729,250	-	-	-	729,250
	<u>80,134</u>	<u>154,459</u>	<u>61,629</u>	<u>43,629</u>	<u>57,282</u>	<u>397,133</u>
Excess revenues and other sources over (under) expenditures						
Fund balances, beginning of year	256,262	(53,923)	(111,691)	339,693	251,404	681,745
	<u>176,128</u>	<u>(208,382)</u>	<u>(173,320)</u>	<u>\$296,064</u>	<u>\$ 194,122</u>	<u>\$ 284,612</u>
FUND BALANCES - END OF YEAR						

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
GAS DEPARTMENT
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 14,005,000	\$ 9,599,546	\$ (4,405,454)
Transportation/surcharges	1,390,650	1,418,229	27,579
Other operating revenues	<u>488,000</u>	<u>449,751</u>	<u>(38,249)</u>
TOTAL OPERATING REVENUES	<u>15,883,650</u>	<u>11,467,526</u>	<u>(4,416,124)</u>
OPERATING EXPENSES			
Gas purchases, net of refunds	10,173,650	5,734,851	(4,438,799)
Maintenance	1,277,500	511,186	(766,314)
Personnel services	1,365,500	1,326,875	(38,625)
Supplies	107,000	49,938	(57,062)
Utilities	58,000	65,671	7,671
Insurance	60,000	135,732	75,732
Engineering	290,000	24,655	(265,345)
Severance tax	10,000	4,123	(5,877)
Contract compression	280,000	455,698	175,698
Other	217,000	171,878	(45,122)
Depreciation	<u>-</u>	<u>445,071</u>	<u>445,071</u>
TOTAL OPERATING EXPENSES	<u>13,838,650</u>	<u>8,925,678</u>	<u>(4,912,972)</u>
OPERATING INCOME	<u>2,045,000</u>	<u>2,541,848</u>	<u>496,848</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	6,500	9,263	2,763
Interest expense	-	(30,400)	(30,400)
Gain (loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>6,500</u>	<u>(21,137)</u>	<u>(27,637)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>2,051,500</u>	<u>2,520,711</u>	<u>469,211</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(2,051,500)</u>	<u>(2,051,500)</u>	<u>-</u>
TOTAL OPERATING TRANSFERS	<u>(2,051,500)</u>	<u>(2,051,500)</u>	<u>-</u>
INCREASE IN NET POSITION	<u>\$ -</u>	<u>\$ 469,211</u>	<u>\$ 469,211</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WATER DEPARTMENT
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 7,345,000	\$ 6,928,378	\$ (416,622)
Transportation/surcharges	65,000	74,445	9,445
Other operating revenues	<u>1,000</u>	<u>9,424</u>	<u>8,424</u>
TOTAL OPERATING REVENUES	<u>7,411,000</u>	<u>7,012,247</u>	<u>(398,753)</u>
OPERATING EXPENSES			
Maintenance	556,000	302,769	(253,231)
Personnel services	1,516,500	1,509,050	(7,450)
Supplies	590,500	449,415	(141,085)
Utilities	815,000	770,077	(44,923)
Insurance	80,000	76,120	(3,880)
Engineering	65,000	33,641	(31,359)
Other	140,700	63,079	(77,621)
Amortization	-	9,022	9,022
Depreciation	<u>-</u>	<u>1,405,847</u>	<u>1,405,847</u>
TOTAL OPERATING EXPENSES	<u>3,763,700</u>	<u>4,619,020</u>	<u>855,320</u>
OPERATING INCOME (LOSS)	<u>3,647,300</u>	<u>2,393,227</u>	<u>(1,254,073)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	25,000	14,005	(10,995)
Interest expense	(1,285,500)	(488,241)	797,259
Gain (loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,260,500)</u>	<u>(474,236)</u>	<u>786,264</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	2,386,800	1,918,991	(467,809)
OPERATING TRANSFERS			
Transfers in	-	-	
Transfers out	<u>(2,601,500)</u>	<u>(2,601,500)</u>	<u>-</u>
TOTAL OPERATING TRANSFERS	<u>(2,601,500)</u>	<u>(2,601,500)</u>	<u>-</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (214,700)</u>	<u>\$ (682,509)</u>	<u>\$ (467,809)</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WASTEWATER DEPARTMENT
for the year ended June 30, 2016

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 2,440,000	\$ 2,533,627	\$ 93,627
Transportation/surcharges	20,000	19,371	(629)
Other operating revenues	14,800	190,155	175,355
TOTAL OPERATING REVENUES	2,474,800	2,743,153	268,353
OPERATING EXPENSES			
Maintenance	399,000	221,962	(177,038)
Personnel services	1,251,500	1,349,545	98,045
Supplies	22,500	16,594	(5,906)
Utilities	380,000	370,076	(9,924)
Insurance	50,000	51,984	1,984
Engineering	55,000	47,784	(7,216)
Treatment	108,000	92,987	(15,013)
Other	111,000	77,864	(33,136)
Depreciation	-	1,008,863	1,008,863
TOTAL OPERATING EXPENSES	2,377,000	3,237,659	860,659
OPERATING INCOME (LOSS)	97,800	(494,506)	(592,306)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	30,000	19,942	(10,058)
Interest expense	(193,000)	(192,854)	146
Gain (loss) on asset disposal	-	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(163,000)	(172,912)	(9,912)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(65,200)	(667,418)	(602,218)
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	(151,500)	(101,500)	50,000
TOTAL OPERATING TRANSFERS	(151,500)	(101,500)	50,000
CAPITAL CONTRIBUTIONS			
Federal grants	-	43,383	43,383
TOTAL CAPITAL CONTRIBUTIONS	-	43,383	43,383
(DECREASE) IN NET POSITION	\$ (216,700)	\$ (725,535)	\$ (508,835)

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
SANITATION DEPARTMENT
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 2,605,000	\$ 3,605,902	\$ 1,000,902
Other operating revenues	<u> -</u>	<u> 48,736</u>	<u> 48,736</u>
TOTAL OPERATING REVENUES	<u>2,605,000</u>	<u>3,654,638</u>	<u>1,049,638</u>
OPERATING EXPENSES			
Maintenance	200,400	179,031	(21,369)
Personnel services	864,500	1,069,674	205,174
Supplies	151,000	118,550	(32,450)
Utilities	9,000	6,267	(2,733)
Insurance	40,000	20,250	(19,750)
Landfill	1,000,000	1,005,559	5,559
Other	9,800	25,444	15,644
Depreciation	<u> -</u>	<u> 89,977</u>	<u> 89,977</u>
TOTAL OPERATING EXPENSES	<u>2,274,700</u>	<u>2,514,752</u>	<u>240,052</u>
OPERATING INCOME	<u>330,300</u>	<u>1,139,886</u>	<u>809,586</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	7,500	3,693	(3,807)
Interest expense	<u> -</u>	<u> (1,562)</u>	<u> (1,562)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>7,500</u>	<u>2,131</u>	<u>(5,369)</u>
INCOME BEFORE OPERATING TRANSFERS	<u>337,800</u>	<u>1,142,017</u>	<u>804,217</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(337,800)</u>	<u>(251,500)</u>	<u>86,300</u>
TOTAL OPERATING TRANSFERS	<u>(337,800)</u>	<u>(251,500)</u>	<u>86,300</u>
INCREASE IN NET POSITION	<u>\$ -</u>	<u>\$ 890,517</u>	<u>\$ 890,517</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
INTERNAL SERVICE FUND
for the year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING EXPENSES			
Maintenance	\$ 9,000	\$ 22,905	\$ 13,905
Personnel services	269,000	277,962	8,962
Postage	70,000	69,031	(969)
Other	59,000	39,688	(19,312)
Depreciation	<u>-</u>	<u>1,930</u>	<u>1,930</u>
TOTAL OPERATING EXPENSES	<u>407,000</u>	<u>411,516</u>	<u>4,516</u>
OPERATING INCOME (LOSS)	<u>(407,000)</u>	<u>(411,516)</u>	<u>(4,516)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>1,000</u>	<u>2,491</u>	<u>1,491</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,000</u>	<u>2,491</u>	<u>1,491</u>
(LOSS) BEFORE OPERATING TRANSFERS	<u>(406,000)</u>	<u>(409,025)</u>	<u>(3,025)</u>
OPERATING TRANSFERS			
Transfers in	406,000	406,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING TRANSFERS	<u>406,000</u>	<u>406,000</u>	<u>-</u>
(DECREASE) IN NET POSITION	<u>\$ -</u>	<u>\$ (3,025)</u>	<u>\$ (3,025)</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, 2016, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated November 18, 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.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
November 18, 2016

CITY OF SOMERSET KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

Federal Grantor Program Title	Federal CFDA Number	Federal Expenditures
Department of Transportation Occupant Protection Incentive Grants (1)	20.602	\$ 17,140
Department of Commerce Investments for Public Works and Economic Development Facilities	11.300	43,383
U.S. Department of Agriculture Community Facilities Loans and Grants	10.766	3,895,580
U.S. Department of Justice Harold Rogers Prescription Drug Monitoring Program	16.754	57,236
Executive Office of the President High Intensity Drug Trafficking Areas Program	95.001	<u>9,352</u>
Total Federal Financial Assistance		<u>\$ 4,022,691</u>

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

Note 1: 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

Note 2: Indirect Cost Rates

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

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



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

To the Mayor and City Council
City of 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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RFH

RFH, PLLC
Lexington, Kentucky
November 18, 2016

**CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2016**

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 None reported

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 None reported

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 2 CFR 200.516(a)? Yes No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A
and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

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, 2016

IV. PRIOR YEAR FINDINGS

#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.

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.

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.

Status: Audit finding was resolved.