

CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Mayor and the City Council
City of Somerset
Somerset, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2018, 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 opinions 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2018, 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, pension schedules, and OPEB schedules on pages 3–11 and 47-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial statements and proprietary statements of revenues and expenses – budget to actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018, 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 5, 2018

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, 2018. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources were \$159.31 million
- Total bank balances totaled \$18.9 million
- Total long-term debt decreased by \$1.84 million
- General fund reported a fund balance of \$3.27 million
- During the year, the City's business-type activities generated net revenues of \$3.8 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$35.1 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$12.6 million in unfunded liability for future OPEB cost.
- Of the major business components, natural gas, sanitation and water continued to generate adequate revenues compared to expenses.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis, Continued

Reporting the City as a Whole

Government-Wide Financial Statements

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

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

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

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

Management's Discussion and Analysis, Continued

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Management's Discussion and Analysis, Continued

THE CITY AS A WHOLE

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

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2018	2017	2018	2017	2018	2017
Current & Other Assets	\$.83	\$.72	\$ 24.80	\$ 24.60	\$ 25.63	\$ 25.32
Capital Assets	33.49	35.94	85.05	87.36	118.54	123.30
Deferred Outflows	<u>12.39</u>	<u>5.29</u>	<u>2.75</u>	<u>1.69</u>	<u>15.14</u>	<u>6.98</u>
Total Assets and Deferred Outflows	<u>46.71</u>	<u>41.95</u>	<u>112.60</u>	<u>113.65</u>	<u>159.31</u>	<u>155.60</u>
Other Liabilities	2.47	2.12	2.65	2.96	5.12	5.08
Long Term Liabilities	52.28	42.48	37.70	37.38	89.98	79.86
Deferred Inflows	<u>1.14</u>	<u>.60</u>	<u>.50</u>	<u>.28</u>	<u>1.64</u>	<u>.88</u>
Total Liabilities/Deferred Inflows	<u>55.89</u>	<u>45.20</u>	<u>40.85</u>	<u>40.62</u>	<u>96.74</u>	<u>85.82</u>
Net investment in capital assets	17.78	19.75	56.44	57.40	74.22	77.15
Restricted	1.60	1.64	.80	.91	2.40	2.55
Unrestricted	<u>(28.56)</u>	<u>(24.64)</u>	<u>14.51</u>	<u>14.72</u>	<u>(14.05)</u>	<u>(9.92)</u>
Total Net Position	<u>\$ (9.18)</u>	<u>\$ (3.25)</u>	<u>\$ 71.75</u>	<u>\$ 73.03</u>	<u>\$ 62.57</u>	<u>\$ 69.78</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by \$4.13 million during fiscal year 2018. The major contributing factor for this decrease is due to the new GASB OPEB reporting requirement.

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

Total assets and deferred outflows for Governmental Activities increased from \$41.95 million at June 30, 2017 to \$46.71 million at June 30, 2018. The major contributing factor for this increase is due to the new GASB OPEB reporting requirement.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues						
Charges for Services	\$ 5.82	\$ 4.98	\$ 24.74	\$ 24.37	\$ 30.56	\$ 29.35
Federal & State Grants	2.25	2.41	-	-	2.25	2.41
General Revenues						
Property Taxes	1.45	1.41	-	-	1.45	1.41
Other Taxes and License Fees	7.74	7.66	-	-	7.74	7.66
Other General Revenues	<u>.33</u>	<u>.34</u>	<u>.09</u>	<u>.06</u>	<u>.42</u>	<u>.40</u>
Total Revenues	<u>\$ 17.59</u>	<u>\$ 16.80</u>	<u>\$ 24.83</u>	<u>\$ 24.43</u>	<u>\$ 42.42</u>	<u>\$ 41.23</u>
Program Expenses						
General Government	4.52	3.86	-	-	4.52	3.86
Public Safety	8.30	6.25	-	-	8.30	6.25
Public Services	.18	0.18	-	-	.18	.18
Streets	1.78	1.59	-	-	1.78	1.59
Parks and Recreation	1.75	1.23	-	-	1.75	1.23
Emergency Medical Services	5.91	4.80	-	-	5.91	4.80
Cemetery	.11	.10	-	-	.11	.10
Fuel Center	1.40	.76	-	-	1.40	.76
Waterpark	1.99	1.85	-	-	1.99	1.85
Travel & Tourism	.30	.32	-	-	.30	.32
Intergovernmental Programs	.18	.16	-	-	.18	.16
Downtown Revitalization	.13	.05	-	-	.13	.05
Debt Service – Interest	.54	.55	-	-	.54	.55
Gas	-	-	8.47	8.51	8.47	8.51
Water	-	-	5.73	5.30	5.73	5.30
Wastewater	-	-	3.65	3.67	3.65	3.67
Sanitation	-	-	<u>3.23</u>	<u>2.91</u>	<u>3.23</u>	<u>2.91</u>
Total Expense	<u>\$ 27.09</u>	<u>\$ 21.70</u>	<u>\$ 21.08</u>	<u>\$ 20.39</u>	<u>\$ 48.17</u>	<u>\$ 42.09</u>
Gain (Loss) on disposal of capital assets	(1.49)	(.11)	.04	.01	(1.45)	(.10)
Excess (Deficiency) before Transfer	(10.99)	(5.01)	3.79	4.05	(7.20)	(.96)
Transfer	<u>5.07</u>	<u>4.34</u>	<u>(5.07)</u>	<u>(4.34)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(5.92)	(.67)	(1.28)	(.29)	(7.20)	(.96)
Net Position, beginning, as restated	<u>(3.26)</u>	<u>(2.58)</u>	<u>73.03</u>	<u>73.32</u>	<u>69.77</u>	<u>70.74</u>
Net Position, ending	<u>\$ (9.18)</u>	<u>\$ (3.25)</u>	<u>\$ 71.75</u>	<u>\$ 73.03</u>	<u>\$ 62.57</u>	<u>\$ 69.78</u>

Management's Discussion and Analysis, Continued

The City's total revenues increased by \$1.19 million. The total cost of all programs and services increased by \$6.08 million. The major contributing factor for this increase is due to the new GASB OPEB reporting requirement. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The cost of all governmental activities this year was \$27.09 million compared to \$21.70 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, increased in 2018 from \$4.98 million to \$5.82 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.19 million in taxes and license fees, \$2.25 million in grants and entitlements, \$.33 million of other revenues, and \$5.07 million in transfers.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, streets, waterpark, and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost increased by \$4.69 million and shows the financial burden that was placed on the City's taxpayers by each of these functions. The major contributing factor for this increase is due to the new GASB OPEB reporting requirement.

Table 3
Governmental Activities
(in Millions)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Emergency Medical Services	\$ 5.91	\$ 4.80	\$ 1.50	\$ 0.44
Police and Fire Department	8.30	6.25	7.81	5.42
Streets	1.78	1.59	1.51	1.34
Waterpark	1.99	1.85	.82	.77
Parks and recreation	1.74	1.23	1.39	1.07
All Others	<u>7.36</u>	<u>5.98</u>	<u>5.98</u>	<u>5.28</u>
Totals	<u>\$ 27.08</u>	<u>\$ 21.70</u>	<u>\$ 19.01</u>	<u>\$ 14.32</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$.40 million (\$24.83 million in 2018 compared to \$24.43 million in 2017) and expenses increased by \$.69 million (\$21.08 million in 2018 compared to \$20.39 million in 2017). The factors driving these results include:

- The major increase in revenue for this fiscal year is due to the colder winter that increases the consumption and transportation of natural gas. The major contributing factor for the increase in expense is due to the new GASB OPEB reporting requirement. The City continues to monitor revenue and expenses in an effort to be as efficient as possible in all activities.

THE CITY'S FUNDS

As the City completed the year, its general fund (as presented in the balance sheet on page 14) reported a fund balance of \$3.3 million.

General Fund Budgetary Highlights

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

For the General Fund, actual revenues were \$1.42 million more than the \$8.2 million budgeted, while actual expenditures were \$.50 million less than the expected \$14.3 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had \$118.53 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water, gas and sewer lines. (See Table 4 below).

Management's Discussion and Analysis, Continued

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 2.18	\$ 2.36	\$.90	\$.90	\$ 3.08	\$ 3.26
Right of Way and Easements	.01	.01	.14	.14	.15	.15
Construction in Progress	.41	.05	.12	.27	.53	.32
Infrastructure	14.11	15.15	-	-	14.11	15.15
Utility Plant and Distribution System	-	-	46.15	47.50	46.15	47.50
Buildings and Improvements	14.47	16.92	35.96	36.96	50.43	53.88
Vehicles	1.56	.95	0.82	.68	2.38	1.63
Equipment	.44	.47	0.48	.51	.92	.98
Office Equipment	.02	.03	0.40	.38	0.42	.41
Land Improvements	<u>.29</u>	<u>-</u>	<u>.07</u>	<u>.02</u>	<u>0.36</u>	<u>.02</u>
Total	<u>\$ 33.49</u>	<u>\$ 35.94</u>	<u>\$ 85.04</u>	<u>\$ 87.36</u>	<u>\$ 118.53</u>	<u>\$ 123.30</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Ogden Street Water Line Project was completed in the current FY. The Sugar Hill booster pumping station project was completed. Several sidewalk projects were completed around various neighborhoods as well. The Fischer Fun Park (Handicapped/All Inclusive Park) was 95% complete as of the year end.

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, 2018, the City's Governmental Activities long term debt had decreased by \$.48 million and the Business-Type Activities long term debt decreased by \$1.36 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 \$6.81 million and \$1.04 million respectively. We are now required to include our OPEB Liability, which increased in the Governmental and Business-Type Activities by \$3.55 million and \$.58 million respectively. Table 5 below contains the details.

Table 5
Outstanding Debt at Year End
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Activities	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Long-Term Debt	\$ 15.71	\$ 16.19	\$ 28.68	\$ 30.04	\$ 44.39	\$ 46.23
Net Pension Liability	27.23	20.42	7.90	6.86	35.13	27.28
Net OPEB Liability	<u>9.95</u>	<u>6.40</u>	<u>2.65</u>	<u>2.07</u>	<u>12.60</u>	<u>8.47</u>
Totals	<u>\$ 52.89</u>	<u>\$ 43.01</u>	<u>\$ 39.23</u>	<u>\$ 38.97</u>	<u>\$ 92.12</u>	<u>\$ 81.98</u>

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,459,946	\$ 5,843,447	\$ 10,303,393
Certificates of deposit	1,006,914	5,660,055	6,666,969
Receivables, net	2,805,498	2,459,639	5,265,137
Accrued interest receivable	507	3,115	3,622
Inventories	119,351	984,136	1,103,487
Prepaid expenses	209,979	94,913	304,892
Internal balances, net	<u>(8,877,975)</u>	<u>8,877,975</u>	<u>-</u>
Total current assets	<u>(275,780)</u>	<u>23,923,280</u>	<u>23,647,500</u>
Noncurrent assets			
Restricted cash and cash equivalents	1,107,107	806,171	1,913,278
Excess cost over market value of assets acquired, net	-	69,236	69,236
Capital assets			
Nondepreciable capital assets	2,598,039	1,167,047	3,765,086
Depreciable capital assets, net	<u>30,893,280</u>	<u>83,880,393</u>	<u>114,773,673</u>
Total noncurrent assets	<u>34,598,426</u>	<u>85,922,847</u>	<u>120,521,273</u>
Total assets	<u>34,322,646</u>	<u>109,846,127</u>	<u>144,168,773</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	8,470,574	1,990,559	10,461,133
Deferred outflows - OPEB	3,915,095	760,682	4,675,777
Defeasance on refunding	-	2,829	2,829
Total deferred outflows of resources	<u>12,385,669</u>	<u>2,754,070</u>	<u>15,139,739</u>
Total assets and deferred outflows of resources	<u>\$ 46,708,315</u>	<u>\$ 112,600,197</u>	<u>\$ 159,308,512</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 632,781	\$ 632,126	\$ 1,264,907
Accrued interest payable	178,516	160,583	339,099
Other current liabilities	1,048,077	341,956	1,390,033
Current portion of long-term debt	<u>606,941</u>	<u>1,520,502</u>	<u>2,127,443</u>
Total current liabilities	<u>2,466,315</u>	<u>2,655,167</u>	<u>5,121,482</u>
Noncurrent liabilities			
Notes payable	217,086	6,352,672	6,569,758
Bonds payable	14,886,055	20,804,970	35,691,025
Net pension liability	27,226,493	7,899,063	35,125,556
Net OPEB liability	<u>9,948,087</u>	<u>2,645,289</u>	<u>12,593,376</u>
Total noncurrent liabilities	<u>52,277,721</u>	<u>37,701,994</u>	<u>89,979,715</u>
Total liabilities	<u>54,744,036</u>	<u>40,357,161</u>	<u>95,101,197</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	525,594	359,785	885,379
Deferred inflows - OPEB	<u>617,838</u>	<u>138,501</u>	<u>756,339</u>
Total deferred inflows of resources	<u>1,143,432</u>	<u>498,286</u>	<u>1,641,718</u>
NET POSITION			
Net investment in capital assets	17,781,237	56,438,532	74,219,769
Restricted for			
Debt service	636,872	806,171	1,443,043
Other purposes	957,671	-	957,671
Unrestricted	<u>(28,554,933)</u>	<u>14,500,047</u>	<u>(14,054,886)</u>
Total net position	<u>(9,179,153)</u>	<u>71,744,750</u>	<u>62,565,597</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 46,708,315</u>	<u>\$ 112,600,197</u>	<u>\$ 159,308,512</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, 2018

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 4,509,627	\$ -	\$ -	\$ -	\$ (4,509,627)	\$ -	\$ (4,509,627)
Public safety	8,311,262	-	489,065	-	(7,822,197)	-	(7,822,197)
Public services	179,678	-	-	-	(179,678)	-	(179,678)
Streets	1,782,981	-	247,471	24,061	(1,511,449)	-	(1,511,449)
Parks and recreation	1,747,077	245,029	107,500	-	(1,394,548)	-	(1,394,548)
Emergency medical services	5,913,648	3,038,167	1,384,774	-	(1,490,707)	-	(1,490,707)
Cemetery	112,354	15,136	-	-	(97,218)	-	(97,218)
Waterpark	1,985,092	1,166,243	-	-	(818,849)	-	(818,849)
Fuel center	1,397,632	1,355,998	-	-	(41,634)	-	(41,634)
Travel and tourism	297,921	-	-	-	(297,921)	-	(297,921)
Intergovernmental programs	177,695	-	-	-	(177,695)	-	(177,695)
Downtown revitalization	131,874	-	-	-	(131,874)	-	(131,874)
Interest on long-term debt	539,971	-	-	-	(539,971)	-	(539,971)
Total governmental activities	<u>27,086,812</u>	<u>5,820,573</u>	<u>2,228,810</u>	<u>24,061</u>	<u>(19,013,368)</u>	<u>-</u>	<u>(19,013,368)</u>
Business-type activities							
Gas department	8,471,709	10,804,980	-	-	-	2,333,271	2,333,271
Water department	5,738,966	7,269,316	-	-	-	1,530,350	1,530,350
Wastewater department	3,652,095	2,761,033	-	-	-	(891,062)	(891,062)
Sanitation department	3,231,960	3,909,669	-	-	-	677,709	677,709
Total business-type activities	<u>21,094,730</u>	<u>24,744,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,650,268</u>	<u>3,650,268</u>
Total primary government	<u>\$ 48,181,542</u>	<u>\$ 30,565,571</u>	<u>\$ 2,228,810</u>	<u>\$ 24,061</u>	<u>(19,013,368)</u>	<u>3,650,268</u>	<u>(15,363,100)</u>
General revenues							
Taxes:							
Property taxes					1,451,603	-	1,451,603
Transient room tax					298,535	-	298,535
License fees:							
Franchise					907,049	-	907,049
Business					324,177	-	324,177
Insurance premiums					1,755,123	-	1,755,123
Occupational					3,681,548	-	3,681,548
ABC					645,922	-	645,922
Permits:							
Building					65,294	-	65,294
Planning and Zoning					8,974	-	8,974
Stormwater					3,000	-	3,000
Investment earnings					45,627	92,511	138,138
Miscellaneous					325,347	-	325,347
Total general revenues					9,512,199	92,511	9,604,710
Gain (loss) on disposal of capital assets					(1,493,258)	37,671	(1,455,587)
Transfers in (out)					5,065,796	(5,065,796)	-
Change in Net Position					(5,928,631)	(1,285,346)	(7,213,977)
Net position-beginning, as restated					(3,250,522)	73,030,096	69,779,574
NET POSITION-ENDING					<u>\$ (9,179,153)</u>	<u>\$ 71,744,750</u>	<u>\$ 62,565,597</u>

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

CITY OF SOMERSET, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 3,984,270	\$ 351,705	\$ 115,972	\$ 66,622	\$ 1,048,484	\$ 5,567,053
Certificates of deposit	1,006,914	-	-	-	-	1,006,914
Receivables, net	1,665,262	819,556	207,051	34,637	78,992	2,805,498
Interest receivable	507	-	-	-	-	507
Inventories	10,480	-	15,013	76,606	17,252	119,351
Prepaid expenses	130,846	58,291	3,774	1,516	15,552	209,979
Due from other funds	<u>6,025,110</u>	<u>-</u>	<u>-</u>	<u>46,180</u>	<u>-</u>	<u>6,071,290</u>
Total assets	<u>\$ 12,823,389</u>	<u>\$ 1,229,552</u>	<u>\$ 341,810</u>	<u>\$ 225,561</u>	<u>\$ 1,160,280</u>	<u>\$ 15,780,592</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 208,453	\$ 7,824	\$ 47,301	\$ 1,795	\$ 367,408	\$ 632,781
Due to other funds	8,610,609	1,361,956	4,376,916	58,872	540,912	14,949,265
Other current liabilities	<u>734,885</u>	<u>206,275</u>	<u>64,797</u>	<u>4,009</u>	<u>38,111</u>	<u>1,048,077</u>
Total liabilities	<u>9,553,947</u>	<u>1,576,055</u>	<u>4,489,014</u>	<u>64,676</u>	<u>946,431</u>	<u>16,630,123</u>
Fund balances						
Nonspendable	141,326	58,291	18,787	78,122	32,804	329,330
Restricted	769,398	-	-	-	487,436	1,256,834
Committed	-	-	-	-	173,136	173,136
Assigned	1,212,698	-	-	-	-	1,212,698
Unassigned	<u>1,146,020</u>	<u>(404,794)</u>	<u>(4,165,991)</u>	<u>82,763</u>	<u>(479,527)</u>	<u>(3,821,529)</u>
Total fund balances	<u>3,269,442</u>	<u>(346,503)</u>	<u>(4,147,204)</u>	<u>160,885</u>	<u>213,849</u>	<u>(849,531)</u>
Total liabilities and fund balances	<u>\$ 12,823,389</u>	<u>\$ 1,229,552</u>	<u>\$ 341,810</u>	<u>\$ 225,561</u>	<u>\$ 1,160,280</u>	<u>\$ 15,780,592</u>

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

Fund balances reported above	\$ (849,531)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	33,491,319
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(178,516)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	11,242,237
Long-term liabilities, including bonds payable and net pension/OPEB liability, are not due and payable in the current period and therefore are not reported in the funds.	<u>(52,884,662)</u>
Net position of governmental activities	<u>\$ (9,179,153)</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the year ended June 30, 2018

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,451,603	\$ -	\$ -	\$ -	\$ 298,535	\$ 1,750,138
Licenses and permits	7,391,087	-	-	-	-	7,391,087
Fines and forfeits	124,291	-	-	-	-	124,291
Charges for services	-	3,038,167	1,166,243	1,355,998	260,165	5,820,573
Intergovernmental	489,065	1,384,774	-	-	354,971	2,228,810
Interest income	38,849	1,393	1,086	459	3,840	45,627
Other revenues	75,000	27,846	25,994	-	72,216	201,056
Total revenues	9,569,895	4,452,180	1,193,323	1,356,457	989,727	17,561,582
EXPENDITURES						
Current:						
General administration	3,602,055	-	-	-	-	3,602,055
Public safety	6,598,800	-	-	-	-	6,598,800
Public services	179,678	-	-	-	-	179,678
Streets	1,045,006	-	-	-	58,154	1,103,160
Parks and recreation	-	-	-	-	1,502,322	1,502,322
Emergency medical services	-	4,648,547	-	-	-	4,648,547
Cemetery	-	-	-	-	98,896	98,896
Waterpark	-	-	1,250,756	-	-	1,250,756
Fuel center	-	-	-	1,356,866	-	1,356,866
Travel and tourism	-	-	-	-	292,408	292,408
Downtown revitalization	131,874	-	-	-	-	131,874
Intergovernmental programs	152,618	-	-	-	-	152,618
Capital outlay	882,294	153,397	16,259	-	378,420	1,430,370
Debt service	1,218,790	-	111,308	-	-	1,330,098
Total expenditures	13,811,115	4,801,944	1,378,323	1,356,866	2,330,200	23,678,448
Excess (deficiency) of revenues over expenditures	(4,241,220)	(349,764)	(185,000)	(409)	(1,340,473)	(6,116,866)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	302,689	-	-	-	286	302,975
Loan proceeds	180,000	121,826	-	-	-	301,826
Transfers in (out)	3,888,512	(25,000)	238,000	-	1,241,300	5,342,812
Total other financing sources and uses	4,371,201	96,826	238,000	-	1,241,586	5,947,613
Net change in fund balances	129,981	(252,938)	53,000	(409)	(98,887)	(169,253)
Fund balances-beginning	3,139,461	(93,565)	(4,200,204)	161,294	312,736	(680,278)
Fund balances-ending	\$ 3,269,442	\$ (346,503)	\$ (4,147,204)	\$ 160,885	\$ 213,849	\$ (849,531)

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (169,253)
add: capital outlay expenditures capitalized	1,430,370
add: contributed capital - roads	24,061
add: debt service expenditures	1,330,098
less: proceeds from sale of assets	(302,975)
less: loan proceeds	(301,826)
less: transfer of Internal Service Fund net pension liability and related deferred outflows/inflows	(277,016)
less: gain on disposal of capital assets	(1,493,258)
less: depreciation on governmental activities assets	(2,109,945)
less: change in net pension liability	(2,712,202)
less: change in net OPEB liability	(806,714)
less: interest on long term debt	(539,971)

Change in net position Governmental Activities \$ (5,928,631)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
ASSETS						
Current assets						
Cash and cash equivalents	\$ 2,215,892	\$ 2,153,435	\$ 297,346	\$ 1,176,774	\$ 5,843,447	\$ -
Certificates of deposit	-	1,259,830	3,800,178	600,047	5,660,055	-
Receivables, net	986,331	673,973	349,787	449,548	2,459,639	-
Accrued interest receivable	-	331	2,468	316	3,115	-
Inventories	570,230	353,160	60,746	-	984,136	-
Prepaid expenses	25,759	29,567	18,337	21,250	94,913	-
Due from other funds	<u>3,351,077</u>	<u>5,208,011</u>	<u>217,557</u>	<u>1,676,436</u>	<u>10,453,081</u>	<u>-</u>
Total current assets	<u>7,149,289</u>	<u>9,678,307</u>	<u>4,746,419</u>	<u>3,924,371</u>	<u>25,498,386</u>	<u>-</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	720,712	85,459	-	806,171	-
Excess cost over market value of assets acquired, net	-	69,236	-	-	69,236	-
Capital assets						
Nondepreciable capital assets	251,882	643,710	271,455	-	1,167,047	-
Depreciable capital assets	27,016,208	69,105,474	45,934,065	2,560,625	144,616,372	-
Less accumulated depreciation	<u>(19,611,769)</u>	<u>(20,191,846)</u>	<u>(19,236,893)</u>	<u>(1,695,471)</u>	<u>(60,735,979)</u>	<u>-</u>
Total noncurrent assets	<u>7,656,321</u>	<u>50,347,286</u>	<u>27,054,086</u>	<u>865,154</u>	<u>85,922,847</u>	<u>-</u>
Total assets	<u>14,805,610</u>	<u>60,025,593</u>	<u>31,800,505</u>	<u>4,789,525</u>	<u>111,421,233</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	533,020	595,517	467,539	394,483	1,990,559	-
Deferred outflows - OPEB	200,637	233,087	162,209	164,749	760,682	-
Defeasance on refunding	<u>-</u>	<u>2,829</u>	<u>-</u>	<u>-</u>	<u>2,829</u>	<u>-</u>
Total deferred outflows of resources	<u>733,657</u>	<u>831,433</u>	<u>629,748</u>	<u>559,232</u>	<u>2,754,070</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 15,539,267</u>	<u>\$ 60,857,026</u>	<u>\$ 32,430,253</u>	<u>\$ 5,348,757</u>	<u>\$ 114,175,303</u>	<u>\$ -</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 356,661	\$ 106,706	\$ 65,431	\$ 103,328	\$ 632,126	\$ -
Due to other funds	83,189	123,803	1,301,428	66,686	1,575,106	-
Accrued interest payable	4,749	139,841	15,190	803	160,583	-
Other current liabilities	120,272	97,771	70,220	53,693	341,956	-
Current portion of long-term debt	<u>23,403</u>	<u>887,310</u>	<u>521,023</u>	<u>88,766</u>	<u>1,520,502</u>	<u>-</u>
Total current liabilities	<u>588,274</u>	<u>1,355,431</u>	<u>1,973,292</u>	<u>313,276</u>	<u>4,230,273</u>	<u>-</u>
Noncurrent liabilities						
Notes payable	25,737	4,106,935	1,961,869	258,131	6,352,672	-
Revenue bonds payable	720,709	12,801,599	7,282,662	-	20,804,970	-
Net pension liability	2,140,164	2,385,560	1,900,264	1,473,075	7,899,063	-
Net OPEB liability	<u>697,721</u>	<u>810,563</u>	<u>564,086</u>	<u>572,919</u>	<u>2,645,289</u>	<u>-</u>
Total noncurrent liabilities	<u>3,584,331</u>	<u>20,104,657</u>	<u>11,708,881</u>	<u>2,304,125</u>	<u>37,701,994</u>	<u>-</u>
Total liabilities	<u>4,172,605</u>	<u>21,460,088</u>	<u>13,682,173</u>	<u>2,617,401</u>	<u>41,932,267</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pension	97,165	106,318	82,013	74,289	359,785	-
Deferred inflows - OPEB	<u>36,531</u>	<u>42,439</u>	<u>29,534</u>	<u>29,997</u>	<u>138,501</u>	<u>-</u>
Total deferred inflows of resources	<u>133,696</u>	<u>148,757</u>	<u>111,547</u>	<u>104,286</u>	<u>498,286</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	6,886,472	31,830,730	17,203,073	518,257	56,438,532	-
Restricted for debt service	-	720,712	85,459	-	806,171	-
Unrestricted	<u>4,346,494</u>	<u>6,696,739</u>	<u>1,348,001</u>	<u>2,108,813</u>	<u>14,500,047</u>	<u>-</u>
Total net position	<u>11,232,966</u>	<u>39,248,181</u>	<u>18,636,533</u>	<u>2,627,070</u>	<u>71,744,750</u>	<u>-</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,539,267</u>	<u>\$ 60,857,026</u>	<u>\$ 32,430,253</u>	<u>\$ 5,348,757</u>	<u>\$ 114,175,303</u>	<u>\$ -</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, 2018

	Business-type Activities				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
Operating revenues						
Sales to customers	\$ 9,307,376	\$ 7,216,967	\$ 2,637,340	\$ 3,883,316	\$ 23,044,999	\$ -
Transportation/surcharges	1,156,186	48,762	13,293	-	1,218,241	-
Other operating revenues	341,418	3,587	110,400	26,353	481,758	-
Total operating revenues	<u>10,804,980</u>	<u>7,269,316</u>	<u>2,761,033</u>	<u>3,909,669</u>	<u>24,744,998</u>	<u>-</u>
Operating expenses						
Gas purchases, net of refunds	4,953,974	-	-	-	4,953,974	-
Operating expenses	2,556,523	3,354,068	2,032,514	2,814,592	10,757,697	-
Maintenance	470,188	459,599	318,131	290,764	1,538,682	-
Depreciation	461,999	1,455,163	1,107,137	122,761	3,147,060	-
Amortization	-	9,022	-	-	9,022	-
Total operating expenses	<u>8,442,684</u>	<u>5,277,852</u>	<u>3,457,782</u>	<u>3,228,117</u>	<u>20,406,435</u>	<u>-</u>
Operating income (loss)	<u>2,362,296</u>	<u>1,991,464</u>	<u>(696,749)</u>	<u>681,552</u>	<u>4,338,563</u>	<u>-</u>
Nonoperating revenues (expenses)						
Gain (loss) on disposal of capital assets	4,710	(616)	1,177	32,400	37,671	-
Interest and investment revenue	10,846	26,681	46,445	8,539	92,511	-
Interest expense	(29,025)	(461,114)	(194,313)	(3,843)	(688,295)	-
Total nonoperating revenues (expenses)	<u>(13,469)</u>	<u>(435,049)</u>	<u>(146,691)</u>	<u>37,096</u>	<u>(558,113)</u>	<u>-</u>
Income (loss) before transfers	2,348,827	1,556,415	(843,440)	718,648	3,780,450	-
Transfers in (out)	<u>(2,547,000)</u>	<u>(2,172,298)</u>	<u>(20,000)</u>	<u>(478,000)</u>	<u>(5,217,298)</u>	<u>151,502</u>
Change in net position	(198,173)	(615,883)	(863,440)	240,648	(1,436,848)	151,502
Total net position-beginning, as restated	<u>11,431,139</u>	<u>39,864,064</u>	<u>19,499,973</u>	<u>2,386,422</u>	<u>73,181,598</u>	<u>(151,502)</u>
TOTAL NET POSITION-ENDING	<u>\$ 11,232,966</u>	<u>\$ 39,248,181</u>	<u>\$ 18,636,533</u>	<u>\$ 2,627,070</u>	<u>\$ 71,744,750</u>	<u>\$ -</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2018

	<u>Business-type Activities</u>				Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department		
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 10,146,822	\$ 7,182,652	\$ 2,601,871	\$ 3,800,765	\$ 23,732,110	\$ -
Cash payments to suppliers for goods and services	(6,627,816)	(1,830,734)	(1,022,694)	(1,727,322)	(11,208,566)	(12,114)
Cash payments to employees	(1,396,467)	(1,604,085)	(1,115,444)	(1,207,883)	(5,323,879)	(13,055)
Other operating revenues	341,418	3,587	110,400	26,353	481,758	-
Net cash provided (used) by operating activities	<u>2,463,957</u>	<u>3,751,420</u>	<u>574,133</u>	<u>891,913</u>	<u>7,681,423</u>	<u>(25,169)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Receipts (payments) on interfund loans	251,382	154,679	631,142	(307,824)	729,379	(4,295)
Transfers (to) from other funds	(2,540,000)	(2,179,344)	(20,000)	(478,000)	(5,217,344)	(124,659)
Net cash provided (used) by non-capital financing activities	<u>(2,288,618)</u>	<u>(2,024,665)</u>	<u>611,142</u>	<u>(785,824)</u>	<u>(4,487,965)</u>	<u>(128,954)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on bonds and notes	(23,995)	(869,721)	(661,761)	(65,393)	(1,620,870)	-
Interest paid on bonds and notes	(29,026)	(463,946)	(196,152)	(3,040)	(692,164)	-
Proceeds from issuance of debt	-	-	-	270,916	270,916	-
Acquisition and construction of capital assets	(162,275)	(203,863)	(242,519)	(358,855)	(967,512)	-
Proceeds from sale of assets	6,210	284	2,677	32,400	41,571	-
Net cash (used) by capital and related financing activities	<u>(209,086)</u>	<u>(1,537,246)</u>	<u>(1,097,755)</u>	<u>(123,972)</u>	<u>(2,968,059)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest income	10,846	26,484	44,810	8,447	90,587	-
Net cash provided by investing activities	<u>10,846</u>	<u>26,484</u>	<u>44,810</u>	<u>8,447</u>	<u>90,587</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(22,901)	215,993	132,330	(9,436)	315,986	(154,123)
Balances-beginning of the year	<u>2,238,793</u>	<u>2,658,154</u>	<u>250,475</u>	<u>1,186,210</u>	<u>6,333,632</u>	<u>154,123</u>
BALANCES-END OF THE YEAR	<u>\$ 2,215,892</u>	<u>\$ 2,874,147</u>	<u>\$ 382,805</u>	<u>\$ 1,176,774</u>	<u>\$ 6,649,618</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss):	\$ 2,362,296	\$ 1,991,464	\$ (696,749)	\$ 681,552	\$ 4,338,563	\$ -
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	461,999	1,455,163	1,107,137	122,761	3,147,060	-
Amortization expense	-	9,022	-	-	9,022	-
Net pension liability activity	243,955	283,410	197,230	200,319	924,914	-
Net OPEB liability activity	30,690	35,654	24,812	25,201	116,357	-
Change in assets and liabilities:						
Receivables, net	(316,740)	(83,077)	(48,762)	(82,551)	(531,130)	-
Inventory	(211,079)	6,805	1,927	-	(202,347)	-
Prepaid expenses	(9,426)	(12,039)	(5,419)	(8,853)	(35,737)	-
Accounts payable	(93,183)	56,313	(14,713)	(50,831)	(102,414)	(12,114)
Other liabilities	(4,555)	8,705	8,670	4,315	17,135	(13,055)
Net cash provided (used) by operating activities	<u>\$ 2,463,957</u>	<u>\$ 3,751,420</u>	<u>\$ 574,133</u>	<u>\$ 891,913</u>	<u>\$ 7,681,423</u>	<u>\$ (25,169)</u>
Supplemental disclosure of cash flow information:						
Noncash capital and related financing activities:						
Payables for capital items, net	<u>\$ (8,304)</u>	<u>\$ (43,157)</u>	<u>\$ (71,765)</u>	<u>\$ -</u>	<u>\$ (123,226)</u>	<u>\$ -</u>

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The accompanying financial statements of the City present the City's primary government over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. All related entities were evaluated using these criteria and no related entities require inclusion in the general purpose financial statements. The Pulaski County Industrial Foundation was evaluated and excluded because its operations are primarily funded by a county-wide occupational tax. The Lake Cumberland Area Drug Task Force was evaluated and excluded because the board which oversees the task force contains one member from each participating government and the task force does not provide services primarily to the City.

B. Government-wide and Fund Financial Statements

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

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

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

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

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

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

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 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, 2018

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. The internal service fund was closed on July 1, 2017.

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, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance (continued)

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	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventory	\$ 10,480	\$ -	\$ 15,013	\$ 76,606	\$ 17,252	\$ 119,351
Prepays	130,846	58,291	3,774	1,516	15,552	209,979
Restricted						
Debt service	769,398	-	-	-	-	769,398
Road repair	-	-	-	-	335,571	335,571
Tourism	-	-	-	-	151,865	151,865
Committed						
Cemetery	-	-	-	-	173,136	173,136
Assigned						
Debt Service	1,212,698	-	-	-	-	1,212,698
Unassigned	<u>1,146,020</u>	<u>(404,794)</u>	<u>(4,165,991)</u>	<u>82,763</u>	<u>(479,527)</u>	<u>(3,821,529)</u>
Total	<u>\$ 3,269,442</u>	<u>\$ (346,503)</u>	<u>\$ (4,147,204)</u>	<u>\$ 160,885</u>	<u>\$ 213,849</u>	<u>\$ (849,531)</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. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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 (KRS) 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.

Cash and Cash Equivalents

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

Interfund Receivables and Payables

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

Inventories

Inventories in the general and proprietary funds consist of expendable supplies held for consumption and inventory for concessions and retail sale in the waterpark stated on a first-in, first-out method. Inventory in the fuel center fund consists of fuel held for sale. 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on the accrual basis. With the exception of the proprietary funds, this approximates accounting principles generally accepted in the United States of America. The primary difference for the proprietary funds between accounting principles generally accepted in the United States of America and the cash basis is in the treatment of capital improvements and the related depreciation and principal payments on debt. All annual appropriations lapse at fiscal year-end, even if encumbered.

In June of each year, 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.

I. Other Accounting Policies

Interfund Transactions

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

Use of Estimates

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

J. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 5, 2018, 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, 2018, have not been evaluated by the City.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. CASH AND INVESTMENTS

Custodial Credit Risks – Deposits

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

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2018 are as follows:

Carrying amount	\$ 18,883,640
Bank balance	\$ 19,499,393
FDIC Insurance	\$ 2,421,012
Bank Deposit Guaranty Bond	\$ 2,200,000
Uninsured and collateral held by the pledging financial institution's trust department or agent and pledged to the City, in the depositor-government's name	\$ 14,878,381
Uninsured and uncollateralized	\$ -

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2018 for all funds of the City are as follows:

	Accounts	Taxes	Licenses & Permits		Intergov.	Other	Allowance	Total
General Fund	\$ -	\$ 29,922	\$ 1,410,633	\$ 85,844	\$ 138,863	\$ -	\$ 1,665,262	
EMS Fund	2,168,307	-	-	31,000	6,958	(1,386,709)	819,556	
Fuel Center	-	-	-	-	34,637	-	34,637	
Waterpark	207,051	-	-	-	-	-	207,051	
Other Gov.	-	-	-	63,242	23,280	(7,530)	78,992	
Gas	986,331	-	-	-	-	-	986,331	
Water	673,973	-	-	-	-	-	673,973	
Wastewater	349,787	-	-	-	-	-	349,787	
Sanitation	449,548	-	-	-	-	-	449,548	
Totals	<u>\$4,834,997</u>	<u>\$ 29,922</u>	<u>\$ 1,410,633</u>	<u>\$ 180,086</u>	<u>\$ 203,738</u>	<u>\$ (1,394,239)</u>	<u>\$ 5,265,137</u>	

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

4. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2018 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, 2018 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Gas Department	\$ 79,687
General Fund	Water Department	121,306
General Fund	Wastewater Department	798,296
General Fund	Sanitation Department	53,315
Fuel Center Fund	Gas Department	3,502
Fuel Center Fund	Water Department	2,497
Fuel Center Fund	Wastewater Department	3,132
Fuel Center Fund	Sanitation Department	13,371
Gas Department	General Fund	(3,351,077)
Water Department	General Fund	(3,908,011)
Water Department	Waterpark	(1,300,000)
Wastewater Department	Tourism Fund	(1,035)
Wastewater Department	General Fund	(216,522)
Sanitation Department	Fuel Center	(55,000)
Sanitation Department	General Fund	<u>(1,121,436)</u>
Internal balances, net		<u>\$ (8,877,975)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2018 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Parks & Recreation	\$ 370,979
General Fund	EMS Fund	\$ 1,353,411
General Fund	MAP	\$ 28,657
General Fund	Coal & Mineral Severance	\$ 135,000
General Fund	Cemetery Fund	\$ 2,239
General Fund	Waterpark	\$ 3,076,377
General Fund	Fuel Center Fund	\$ 3,872
General Fund	Tourism & Travel	\$ 1,971
Fuel Center Fund	General Fund	\$ 13,563
Fuel Center Fund	Cemetery	\$ 232
Fuel Center Fund	Parks & Recreation	\$ 799
Fuel Center Fund	EMS Fund	\$ 8,545
Sanitation	Wastewater Department	\$ 500,000

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. CAPITAL ASSETS

A summary of changes in the City's capital assets during the year ended June 30, 2018 is as follows:

	June 30, 2017	Additions/ Transfers	Disposals/ Transfers	June 30, 2018
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 2,356,780	\$ 109,294	\$ 288,236	\$ 2,177,838
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>54,409</u>	<u>354,724</u>	<u>-</u>	<u>409,133</u>
Totals	<u>2,422,257</u>	<u>464,018</u>	<u>288,236</u>	<u>2,598,039</u>
Capital assets that are depreciated:				
Infrastructure	36,091,352	58,333	-	36,149,685
Building and improvements	20,509,756	-	2,246,188	18,263,568
Vehicles	4,754,331	921,853	281,076	5,395,108
Equipment	2,426,522	71,526	67,345	2,430,703
Office equipment	1,009,686	-	-	1,009,686
Land improvements	<u>1,264,190</u>	<u>-</u>	<u>-</u>	<u>1,264,190</u>
Totals	<u>66,055,837</u>	<u>1,051,712</u>	<u>2,594,609</u>	<u>64,512,940</u>
Total capital assets	<u>68,478,094</u>	<u>1,515,730</u>	<u>2,882,845</u>	<u>67,110,979</u>
Accumulated depreciation:				
Infrastructure	20,938,793	1,096,411	-	22,035,204
Buildings and improvements	3,933,311	568,133	707,541	3,793,903
Vehicles	3,807,661	286,085	260,382	3,833,364
Equipment	1,961,150	89,500	57,345	1,993,305
Office equipment	978,650	12,291	-	990,941
Land improvements	<u>915,418</u>	<u>57,525</u>	<u>-</u>	<u>972,943</u>
Totals	<u>32,534,983</u>	<u>2,109,945</u>	<u>1,025,268</u>	<u>33,619,660</u>
Capital Assets, Net	<u>\$ 35,943,111</u>	<u>\$ (594,215)</u>	<u>\$ (1,857,577)</u>	<u>\$ 33,491,319</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. CAPITAL ASSETS (CONTINUED)

	June 30, 2017	Additions/ Transfers	Disposals/ Transfers	June 30, 2018
Business-type Activities				
Capital assets not depreciated:				
Land	\$ 904,933	\$ -	\$ -	\$ 904,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>273,640</u>	<u>171,246</u>	<u>329,794</u>	<u>115,092</u>
Totals	<u>1,325,595</u>	<u>171,246</u>	<u>329,794</u>	<u>1,167,047</u>
Capital assets that are depreciated:				
Utility plant and dist. system	88,127,364	506,749	-	88,634,113
Building and improvements	49,268,958	-	-	49,268,958
Vehicles	2,826,982	339,359	231,591	2,934,750
Equipment	2,629,320	154,005	1,664	2,781,661
Office equipment	897,767	-	15,108	882,659
Land improvements	<u>114,231</u>	<u>-</u>	<u>-</u>	<u>114,231</u>
Totals	<u>143,864,622</u>	<u>1,000,113</u>	<u>248,363</u>	<u>144,616,372</u>
Total capital assets	<u>145,190,217</u>	<u>1,171,359</u>	<u>578,157</u>	<u>145,783,419</u>
Accumulated depreciation:				
Utility plant and dist. system	40,597,687	1,886,533	-	42,484,220
Buildings and improvements	12,322,433	990,922	-	13,313,355
Vehicles	2,175,518	160,800	220,691	2,115,627
Equipment	2,209,718	92,369	1,664	2,300,423
Office equipment	484,843	13,016	15,107	482,752
Land improvements	<u>36,182</u>	<u>3,420</u>	<u>-</u>	<u>39,602</u>
Totals	<u>57,826,381</u>	<u>3,147,060</u>	<u>237,462</u>	<u>60,735,979</u>
Capital Assets, Net	<u>\$ 87,363,836</u>	<u>\$ (1,975,701)</u>	<u>\$ (340,695)</u>	<u>\$ 85,047,440</u>
Primary Government Capital Assets, Net	<u>\$ 123,306,947</u>	<u>\$ (2,569,916)</u>	<u>\$(2,198,272)</u>	<u>\$ 118,538,759</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

5. CAPITAL ASSETS (CONTINUED)

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

Primary Government			Business-Type Activities	
<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
Waterpark	\$	689,191	Water	\$ 1,455,163
Streets		579,389	Wastewater	1,107,137
Public Safety		143,466	Gas	461,999
General Government		406,848	Sanitation	<u>122,761</u>
Emergency Medical Services		153,406		
Parks and Recreation		106,269		<u>\$ 3,147,060</u>
Fuel Center		28,497		
Cemetery		2,784		
Intergovernmental Programs		<u>95</u>		
		<u>\$ 2,109,945</u>		

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2018:

Description	Balance June 30, 2017	Issued	Retired	June 30, 2018	Due within One year
Primary Government					
<u>Governmental Activities</u>					
<i>General Fund</i>					
Series 2010 with interest at 2.00% to 3.00%, maturing in fiscal year 2019	\$ 455,000	\$ -	\$ 220,000	\$ 235,000	\$ 235,000
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	4,841,209	-	141,225	4,699,984	138,401
Series 2015A with interest at 3.25% maturing in fiscal year 2054	8,389,500	-	114,500	8,275,000	118,500
Series 2015B with interest at 3.25% maturing in fiscal year 2054	840,000	-	231,482	608,518	10,500
Street sweeper loan with interest at 3.50% maturing in fiscal year 2023	-	180,000	27,834	152,166	34,500
Ambulance loan with interest at 4.15% maturing in fiscal year 2023	-	121,826	-	121,826	22,406

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. LONG-TERM DEBT (CONTINUED)

Governmental Activities, continued

	Balance			Due within	
	June 30, 2017	Issued	Retired	June 30, 2018	One year
<i>Waterpark</i>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	\$ 1,666,193	\$ -	\$ 48,605	\$ 1,617,588	\$ 47,634
Net pension liability	<u>20,422,698</u>	<u>6,803,795</u>	<u>-</u>	<u>27,226,493</u>	<u>-</u>
Net OPEB liability	<u>6,399,842</u>	<u>3,548,245</u>	<u>-</u>	<u>9,948,087</u>	<u>-</u>
Total governmental activities	<u>\$ 43,014,442</u>	<u>\$ 10,653,866</u>	<u>\$ 783,646</u>	<u>\$ 52,884,662</u>	<u>\$ 606,941</u>

Description	Balance			Due within	
	June 30, 2017	Issued	Retired	June 30, 2018	One year

Business-type Activities

Gas Department

Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	\$ 765,086	\$ -	\$ 22,500	\$ 742,586	\$ 21,877
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	<u>28,758</u>	<u>-</u>	<u>1,495</u>	<u>27,263</u>	<u>1,526</u>
Total Gas Department	<u>\$ 793,844</u>	<u>\$ -</u>	<u>\$ 23,995</u>	<u>\$ 769,849</u>	<u>\$ 23,403</u>

Water Department

Series 2012 GO with interest at 2%, maturing in fiscal year 2019	\$ 765,000	\$ -	\$ 380,000	\$ 385,000	\$ 385,000
Original issue premium	25,197	-	12,598	12,599	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	8,544,000	-	159,500	8,384,500	163,000
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,746,500	-	88,500	4,658,000	90,500
Cumberland Valley Note with interest at 2.5% maturing in fiscal year 2022	407,466	-	86,721	320,745	88,810
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	<u>4,190,000</u>	<u>-</u>	<u>155,000</u>	<u>4,035,000</u>	<u>160,000</u>
Total Water Department	<u>\$ 18,678,163</u>	<u>\$ -</u>	<u>\$ 882,319</u>	<u>\$ 17,795,844</u>	<u>\$ 887,310</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities, continued

Description	June 30, 2017	Issued	Retired	June 30, 2018	Due within One year
Wastewater Department					
KIA note with interest at 1.2%, maturing in fiscal year 2018	\$ 147,059	\$ -	\$ 147,059	\$ -	\$ -
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	1,297,675	-	37,500	1,260,175	37,089
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	6,828,693	-	382,643	6,446,050	386,477
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	325,838	-	16,936	308,902	17,280
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>1,828,052</u>	<u>-</u>	<u>77,625</u>	<u>1,750,427</u>	<u>80,177</u>
Total Wastewater Department	<u>\$ 10,427,317</u>	<u>\$ -</u>	<u>\$ 661,763</u>	<u>\$ 9,765,554</u>	<u>\$ 521,023</u>
Sanitation Department					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	\$ 141,374	\$ -	\$ 36,171	\$ 105,203	\$ 37,263
Lease agreement with local bank with interest at 3.5% maturing in fiscal year 2023	<u>-</u>	<u>270,916</u>	<u>29,222</u>	<u>241,694</u>	<u>51,503</u>
Total Sanitation Department	<u>141,374</u>	<u>270,916</u>	<u>65,393</u>	<u>346,897</u>	<u>88,766</u>
Net pension liability	<u>6,857,698</u>	<u>1,041,365</u>	<u>-</u>	<u>7,899,063</u>	<u>-</u>
Net OPEB liability	<u>2,074,886</u>	<u>570,403</u>	<u>-</u>	<u>2,645,289</u>	<u>-</u>
Total Business-type activities	<u>38,973,282</u>	<u>1,882,684</u>	<u>1,633,470</u>	<u>39,222,496</u>	<u>1,520,502</u>
Total primary government	<u>\$ 81,987,724</u>	<u>\$ 12,536,550</u>	<u>\$ 2,417,116</u>	<u>\$ 92,107,158</u>	<u>\$ 2,127,443</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. LONG-TERM DEBT (CONTINUED)

The lease agreement in the sanitation fund is a capital lease for a 2016 garbage truck acquired in March of 2016. The net book value of the garbage truck as of June 30, 2018 is \$120,510.

The Series 2011 Bond issue is dated November 1, 2011 in the amount of \$8,810,000 and carries a 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	\$ 4,699,984
Waterpark	1,617,588
Gas department	742,586
Wastewater department	<u>1,260,175</u>
 Total	 <u>\$ 8,320,333</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.

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

Governmental Activities

Year ended	Principal	Interest	Total
2019	\$ 606,941	\$ 538,948	\$ 1,145,889
2020	568,458	520,542	1,089,000
2021	586,658	501,986	1,088,644
2022	605,429	482,066	1,087,495
2023	594,638	461,076	1,055,714
2024-2028	3,143,233	1,972,063	5,115,296
2029-2033	3,216,707	1,314,435	4,531,142
2034-2038	1,167,000	945,867	2,112,867
2039-2043	1,389,500	738,655	2,128,155
2044-2048	1,654,000	492,004	2,146,004
2049-2053	1,788,518	211,957	2,000,475
2054	<u>389,000</u>	<u>6,321</u>	<u>395,321</u>
	<u>\$ 15,710,082</u>	<u>\$ 8,185,920</u>	<u>\$ 23,896,002</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities

Year ended	Principal	Interest	Total
2019	\$ 1,520,502	\$ 679,640	\$ 2,200,142
2020	1,219,331	653,607	1,872,938
2021	1,236,421	622,048	1,858,469
2022	1,189,671	594,025	1,783,696
2023	1,133,137	606,375	1,739,512
2024-2028	5,943,112	2,424,775	8,367,887
2029-2033	6,539,889	1,634,481	8,174,370
2034-2038	3,242,649	919,403	4,162,052
2039-2043	2,128,000	617,217	2,745,217
2044-2048	2,393,833	380,099	2,773,932
2049-2052	<u>2,119,000</u>	<u>113,395</u>	<u>2,232,395</u>
Unamortized premium	<u>12,599</u>	-	<u>12,599</u>
	<u>\$ 28,678,144</u>	<u>\$ 9,245,065</u>	<u>\$ 37,923,209</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, 2018 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2018, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

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, 2018, 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 were 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

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 contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. For the year ended June 30, 2018, participating employers contributed 19.18% of each employee's wages for non-hazardous job classifications and 31.55% 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, 2018, the City contributed \$1,197,885, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$904,347 to the CERS pension fund and \$293,538 to the CERS insurance fund. The City contributed \$1,584,706, or 100% of the required contribution for hazardous job classifications, which was allocated \$1,115,070 to the CERS pension fund and \$469,636 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

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, 2018, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ <u>35,125,556</u>	\$ <u>14,800,439</u>	\$ <u>20,325,117</u>

The net pension liability was measured as of June 30, 2017, 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, 2017 was as follows:

Non-hazardous	Hazardous
.253%	.908%

The proportionate share at June 30, 2017 relative to June 30, 2016 increased for non-hazardous by .006% and hazardous by .026%.

For the year ended June 30, 2018, the City recognized pension expense of \$5,667,749. At June 30, 2018, 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	\$ 763,859	\$ 375,698
Changes of assumptions	6,785,480	-
Net difference between projected and actual earnings on Plan investments	360,677	-
Changes in proportion and differences between City contributions and proportionate share of contributions	531,700	509,681
City contributions subsequent to the measurement date	<u>2,019,417</u>	<u>-</u>
Total	\$ <u>10,461,133</u>	\$ <u>885,379</u>

The \$2,019,417 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2019. 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,	
2019	\$ 3,019,980
2020	\$ 3,455,257
2021	\$ 1,480,933
2022	\$ (399,833)

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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
U.S. Equity	26.5%	11.27%
Non-U.S. Equity	26.5%	2.83%
Fixed Income	12.0%	7.69%
Real Return	8.0%	4.00%
Real Estate	5.0%	5.95%
Absolute Return	10.0%	3.96%
Private Equity	10.0%	10.95%
Cash Equivalent	2.0%	3.65%
Total	100%	

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

7. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25 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 26 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 18,666,582	5.25%	\$ 25,555,128
Current discount rate	6.25%	\$ 14,800,439	6.25%	\$ 20,325,117
1% increase	7.25%	\$ 11,566,483	7.25%	\$ 16,005,857

Payable to the Pension Plan – At June 30, 2018, the City reported a payable of \$450,796 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018. The payable includes both the pension and insurance contribution allocation.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 7, the City of Somerset participates in the County Employees' Retirement System (CERS). 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. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2018, the employer's contribution was 4.70% to the insurance trust for non-hazardous job classifications and 9.35% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 were 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 contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2018, the City contributed \$293,538, or 100% of the required contribution for non-hazardous job classifications, and \$469,636, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ <u>12,593,376</u>	\$ <u>5,083,271</u>	\$ <u>7,510,105</u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2017 was .253% for non-hazardous and .908% for hazardous.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,722,596. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 31,619
Changes of assumptions	3,876,249	-
Net difference between projected and actual earnings on Plan investments	-	711,431
Changes in proportion and differences between City contributions and proportionate share of contributions	-	13,289
City contributions subsequent to the measurement date	799,528	-
Total	<u>\$ 4,675,777</u>	<u>\$ 756,339</u>

The \$799,528 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 OPEB liability in the year ending June 30, 2019. This includes adjustments of \$62,126 for the nonhazardous implicit subsidy and (\$25,772) for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,

2019	\$	803,887
2020	\$	803,887
2021	\$	803,887
2022	\$	446,390
2023	\$	204,578
2024	\$	57,281

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous and
Hazardous**

Inflation	2.30%	
Salary increases	3.05%, average, including inflation	
Investment rate of return	6.25%, net of Plan investment expense, including inflation	
Healthcare trend		
	Pre – 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	
	Post – 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.	

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2017.

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 arithmetic 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
U.S Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute Return	10.0%	3.89%
Private Equity	10.0%	9.74%
Cash Equivalent	<u>2.0%</u>	2.69%
Total	100%	

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Discount Rate – The discount rate used to measure the total net OPEB liability was 5.84% and 5.96% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using the discount rate as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net OPEB liability	Discount rate	City’s proportionate share of net OPEB liability
1% decrease	4.84%	\$ 6,468,180	4.96%	\$ 10,064,569
Current discount rate	5.84%	\$ 5,083,271	5.96%	\$ 7,510,105
1% increase	6.84%	\$ 3,930,808	6.96%	\$ 5,420,133

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City’s proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous		Hazardous	
		City’s proportionate share of net OPEB liability		City’s proportionate share of net OPEB liability
1% decrease		\$ 3,899,130		\$ 5,316,288
Current trend rate		\$ 5,083,271		\$ 7,510,105
1% increase		\$ 6,622,583		\$ 10,225,286

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued financial report.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

9. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2018 were levied in September 2017 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.

10. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General operations	\$ 1,253,300
EMS	General	General operations	\$ 25,000
Tourism	General	General operations	\$ 12,000
General	Internal Service	Fund close out	\$ 151,505
Gas	General	General operations	\$ 1,900,000
Gas	General	General operations	\$ 400,000
Gas	General	Utility Billing	\$ 240,000
Sanitation	General	Utility Billing	\$ 240,000
Sanitation	Waterpark	General operations	\$ 238,000
Water	General	General operations	\$ 1,400,000
Water	General	General operations	\$ 539,387
Water	General	Utility Billing	\$ 240,000
Wastewater	General	Utility Billing	\$ 20,000

11. OPERATING LEASES

The City entered into an agreement with Enterprise Fleet Management to lease the majority of its vehicles. The term of each leased vehicle varies from forty-eight to sixty months and the ownership remains with Enterprise Fleet Management. The City is responsible for all maintenance and for providing insurance on the vehicles. The City has determined the leases do not meet the definition of capital leases and is expensing the payments as they come due. Future lease obligations as of June 30, 2018 are summarized below:

Governmental Activities

2019	\$ 125,088
2020	125,088
2021	125,088
2022	<u>70,806</u>
Total	<u>\$ 446,070</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

11. OPERATING LEASES (CONTINUED)

Business-type Activities

2019	\$ 122,387
2020	122,387
2021	122,387
2022	<u>94,543</u>
Total	<u>\$ 461,704</u>

Lease expense for June 30, 2018 was \$87,507 and \$134,973 for the governmental activities and the business-type activities, respectively.

12. CONDUIT DEBT

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City, payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2018 is not readily available.

13. 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 believe 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.

14. 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, 2018

15. RESTATEMENT OF NET POSITION

Implementation of new accounting standard GASB Statement No. 75

During 2018, the City implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which addresses financial reporting for state and local government employers whose employees are provided with other postemployment benefits (OPEB) through defined benefit plans that are covered under Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The guidance contained in Statement 75 changed how governments calculate and report the costs and obligations associated with OPEB. Under the new standards, GASB requires that cost-sharing governments report a net OPEB liability, OPEB expense, and OPEB related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan. In addition, GASB requires Statement 75 to be applied retroactively, which has resulted in a restatement of beginning net position as follows:

Governmental activities

Net position, at beginning of year	\$ 2,593,594
Beginning net OPEB liability	<u>(5,844,116)</u>
Net position, at beginning of year, as restated	<u>\$ (3,250,522)</u>

Business-type activities

Gas Department	
Net position, at beginning of year	\$ 11,934,063
Beginning net OPEB liability	<u>(502,924)</u>
Net position, at beginning of year, as restated	<u>\$ 11,431,139</u>
Water Department	
Net position, at beginning of year	\$ 40,448,326
Beginning net OPEB liability	<u>(584,262)</u>
Net position, at beginning of year, as restated	<u>\$ 39,864,064</u>
Wastewater Department	
Net position, at beginning of year	\$ 19,906,572
Beginning net OPEB liability	<u>(406,599)</u>
Net position, at beginning of year, as restated	<u>\$ 19,499,973</u>
Sanitation Department	
Net position, at beginning of year	\$ 2,799,388
Beginning net OPEB liability	<u>(412,966)</u>
Net position, at beginning of year, as restated	<u>\$ 2,386,422</u>
Total Business-type activities	
Net position, at beginning of year	\$ 74,936,847
Beginning net OPEB liability	<u>(1,906,751)</u>
Net position, at beginning of year, as restated	<u>\$ 73,030,096</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2018

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes	\$ 1,360,000	\$ 1,360,000	\$ 1,451,603	\$ 91,603
Licenses and permits	5,571,300	5,571,300	7,391,087	1,819,787
Fines and forfeits	17,000	17,000	124,291	107,291
Intergovernmental revenues	804,000	1,104,000	489,065	(614,935)
Interest income	17,500	17,500	38,849	21,349
Other revenues	82,000	82,000	75,000	(7,000)
TOTAL REVENUES	<u>7,851,800</u>	<u>8,151,800</u>	<u>9,569,895</u>	<u>1,418,095</u>
EXPENDITURES				
General government	4,185,800	4,485,800	3,602,055	(883,745)
Public safety	7,025,250	7,025,250	6,598,800	(426,450)
Public services	210,999	210,999	179,678	(31,321)
Streets	1,089,140	1,089,140	1,045,006	(44,134)
Downtown revitalization	129,375	129,375	131,874	2,499
Intergovernmental programs	154,975	154,975	152,618	(2,357)
Capital outlay	50,000	50,000	882,294	832,294
Debt service - principal	735,041	735,041	735,041	-
Debt service - interest	434,651	434,651	483,749	49,098
TOTAL EXPENDITURES	<u>14,015,231</u>	<u>14,315,231</u>	<u>13,811,115</u>	<u>(504,116)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	302,689	302,689
Loan proceeds	-	-	180,000	180,000
Transfer from other funds	5,236,344	5,236,344	5,141,812	(94,532)
Transfer to other funds	(1,253,300)	(1,253,300)	(1,253,300)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,983,044</u>	<u>3,983,044</u>	<u>4,371,201</u>	<u>388,157</u>
NET CHANGE IN FUND BALANCES	(2,180,387)	(2,180,387)	129,981	2,310,368
FUND BALANCES, BEGINNING OF YEAR	<u>3,139,461</u>	<u>3,139,461</u>	<u>3,139,461</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 959,074</u>	<u>\$ 959,074</u>	<u>\$ 3,269,442</u>	<u>\$ 2,310,368</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
EMS FUND
for the year ended June 30, 2018

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 3,586,000	\$ 3,439,000	\$ 3,038,167	\$ (400,833)
Intergovernmental revenues	1,374,600	1,399,600	1,384,774	(14,826)
Interest income	1,500	1,500	1,393	(107)
Other revenues	<u>33,000</u>	<u>33,000</u>	<u>27,846</u>	<u>(5,154)</u>
TOTAL REVENUES	<u>4,995,100</u>	<u>4,873,100</u>	<u>4,452,180</u>	<u>(420,920)</u>
EXPENDITURES				
Emergency medical services	4,970,100	4,970,100	4,648,547	(321,553)
Capital outlay	<u>-</u>	<u>-</u>	<u>153,397</u>	<u>153,397</u>
TOTAL EXPENDITURES	<u>4,970,100</u>	<u>4,970,100</u>	<u>4,801,944</u>	<u>(168,156)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	122,000	121,826	(174)
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(25,000)</u>	<u>97,000</u>	<u>96,826</u>	<u>(174)</u>
NET CHANGE IN FUND BALANCES	-	-	(252,938)	(252,938)
FUND BALANCES, BEGINNING OF YEAR	<u>(93,565)</u>	<u>(93,565)</u>	<u>(93,565)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (93,565)</u>	<u>\$ (93,565)</u>	<u>\$ (346,503)</u>	<u>\$ (252,938)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
WATERPARK FUND
for the year ended June 30, 2018

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,150,350	\$ 1,262,350	\$ 1,166,243	\$ (96,107)
Interest income	500	500	1,086	586
Other revenues	<u>13,000</u>	<u>13,000</u>	<u>25,994</u>	<u>12,994</u>
TOTAL REVENUES	<u>1,163,850</u>	<u>1,275,850</u>	<u>1,193,323</u>	<u>(82,527)</u>
EXPENDITURES				
Waterpark	1,401,850	1,401,850	1,250,756	(151,094)
Capital outlay	-	-	16,259	16,259
Debt service - principal	-	48,605	48,605	-
Debt service - interest	<u>-</u>	<u>63,395</u>	<u>62,703</u>	<u>(692)</u>
TOTAL EXPENDITURES	<u>1,401,850</u>	<u>1,513,850</u>	<u>1,378,323</u>	<u>(135,527)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	-	-
Transfer from other funds	<u>238,000</u>	<u>238,000</u>	<u>238,000</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>238,000</u>	<u>238,000</u>	<u>238,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	53,000	53,000
FUND BALANCES, BEGINNING OF YEAR	<u>(4,200,204)</u>	<u>(4,200,204)</u>	<u>(4,200,204)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ (4,200,204)</u>	<u>\$ (4,200,204)</u>	<u>\$ (4,147,204)</u>	<u>\$ 53,000</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
FUEL CENTER FUND
for the year ended June 30, 2018

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 607,100	\$ 1,602,100	\$ 1,355,998	\$ (246,102)
Interest income	1,200	1,200	459	(741)
Other revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>608,300</u>	<u>1,603,300</u>	<u>1,356,457</u>	<u>(246,843)</u>
EXPENDITURES				
Fuel center	608,300	1,603,300	1,356,866	(246,434)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>608,300</u>	<u>1,603,300</u>	<u>1,356,866</u>	<u>(246,434)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	(409)	(409)
FUND BALANCES, BEGINNING OF YEAR	<u>161,294</u>	<u>161,294</u>	<u>161,294</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 161,294</u>	<u>\$ 161,294</u>	<u>\$ 160,885</u>	<u>\$ (409)</u>

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.253%	0.247%	0.266%	0.257%	0.257%
City's proportionate share of the net pension liability (asset)	\$ 14,800,439	\$ 12,144,563	\$ 11,416,098	\$ 8,349,736	\$ 9,448,091
City's covered employee payroll	\$ 6,150,570	\$ 5,859,201	\$ 6,313,654	\$ 5,861,806	\$ 5,358,488
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	240.64%	207.27%	180.82%	142.44%	176.32%
Plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%	66.80%	61.22%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

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

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

The above schedule will present 10 years of historical data, once available.

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

	2018	2017	2016	2015	2014
City's proportion of the net pension liability	0.908%	0.882%	0.922%	0.923%	0.923%
City's proportionate share of the net pension liability (asset)	\$ 20,325,117	\$ 15,135,833	\$ 14,149,168	\$ 11,098,449	\$ 12,345,466
City's covered employee payroll	\$ 4,912,100	\$ 4,556,589	\$ 4,822,081	\$ 4,681,614	\$ 4,724,814
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	413.78%	332.17%	293.42%	237.06%	261.29%
Plan fiduciary net position as a percentage of the total pension liability	49.78%	53.95%	57.52%	63.46%	57.74%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

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

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

The above schedule will present 10 years of historical data, once available.

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS - NONHAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 904,347	\$ 863,880	\$ 727,713	\$ 804,991	\$ 805,078	\$ 675,388
Contributions relative to contractually required employer contribution	<u>904,347</u>	<u>863,880</u>	<u>727,713</u>	<u>804,991</u>	<u>805,078</u>	<u>675,388</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 6,245,488	\$ 6,150,570	\$ 5,859,201	\$ 6,313,654	\$ 5,861,806	\$ 5,358,488
Employer contributions as a percentage of covered-employee payroll	14.48%	14.05%	12.42%	12.75%	13.73%	12.60%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net pension liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 1,115,070	\$ 1,066,417	\$ 924,463	\$ 1,002,090	\$ 1,016,016	\$ 948,760
Contributions relative to contractually required employer contribution	<u>1,115,070</u>	<u>1,066,417</u>	<u>924,463</u>	<u>1,002,090</u>	<u>1,016,016</u>	<u>948,760</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,022,840	\$ 4,912,100	\$ 4,556,589	\$ 4,822,081	\$ 4,681,614	\$ 4,724,814
Employer contributions as a percentage of covered-employee payroll	22.20%	21.71%	20.29%	20.78%	21.70%	20.08%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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.

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

The above schedule will present 10 years of historical data, once available.

**CITY OF SOMERSET, KENTUCKY
 REQUIRED SUPPLEMENTARY SCHEDULE OF
 PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - NONHAZARDOUS
 Last Two Fiscal Years**

	2018	2017
City's proportion of the net OPEB liability	0.253%	0.247%
City's proportionate share of the net OPEB liability (asset)	\$5,083,271	\$ 3,987,166
City's covered employee payroll	\$6,150,570	\$ 5,859,201
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	82.65%	68.05%
Plan fiduciary net position as a percentage of the total OPEB liability of covered-employee payroll	52.39%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

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

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

The above schedule will present 10 years of historical data, once available.

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

	2018	2017
City's proportion of the net OPEB liability	0.908%	0.882%
City's proportionate share of the net OPEB liability (asset)	\$ 7,510,105	\$ 4,487,562
City's covered employee payroll	\$ 4,912,100	\$ 4,556,589
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	152.89%	98.49%
Plan fiduciary net position as a percentage of the total OPEB liability of covered-employee payroll	58.99%	unavailable

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

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

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

The above schedule will present 10 years of historical data, once available.

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - NONHAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 293,538	\$ 292,914	\$ 271,867	\$ 310,632	\$ 301,758	\$ 370,875
Contributions relative to contractually required employer contribution	<u>293,538</u>	<u>292,914</u>	<u>271,867</u>	<u>310,632</u>	<u>301,758</u>	<u>370,875</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$6,245,488	\$ 6,150,570	\$ 5,859,201	\$ 6,313,654	\$5,861,806	\$ 5,358,488
Employer contributions as a percentage of covered-employee payroll	4.70%	4.76%	4.64%	4.92%	5.15%	6.92%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

**CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - HAZARDOUS
Last Six Fiscal Years**

	2018	2017	2016	2015	2014	2013
Contractually required employer contribution	\$ 469,636	\$ 459,281	\$ 579,045	\$ 656,458	\$ 650,120	\$ 826,035
Contributions relative to contractually required employer contribution	<u>469,636</u>	<u>459,281</u>	<u>579,045</u>	<u>656,458</u>	<u>650,120</u>	<u>826,035</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,022,840	\$ 4,912,100	\$ 4,556,589	\$ 4,822,081	\$ 4,681,614	\$ 4,724,814
Employer contributions as a percentage of covered-employee payroll	9.35%	9.35%	12.71%	13.61%	13.89%	17.48%

Notes:

There were no changes in benefit terms. However, the following changes in assumptions were modified as of the June 30, 2017 valuation:

The assumed investment rate of return was decreased from 7.5% to 6.25%.

The assumed rate of inflation was reduced from 3.5% to 2.3%.

Payroll growth assumption was reduced from 4% to 2%.

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

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

The above schedule will present 10 years of historical data, once available.

SUPPLEMENTARY INFORMATION

**CITY OF SOMERSET, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2018**

	<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>2018 Total</u>
ASSETS						
Cash and cash equivalents	\$ 337,826	\$ 395,441	\$ 8,905	\$ 163,798	\$ 142,514	\$ 1,048,484
Accounts receivable, net	26,402	-	6,362	15,750	30,478	78,992
Inventory	-	2,452	-	14,800	-	17,252
Prepaid expenses	-	14,403	-	756	393	15,552
Total assets	<u>\$ 364,228</u>	<u>\$ 412,296</u>	<u>\$ 15,267</u>	<u>\$ 195,104</u>	<u>\$ 173,385</u>	<u>\$ 1,160,280</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ -	\$ 349,120	\$ -	\$ 1,600	\$ 16,688	\$ 367,408
Due to other fund	28,657	371,778	135,000	2,471	3,006	540,912
Other current liabilities	-	34,337	-	2,341	1,433	38,111
Total liabilities	28,657	755,235	135,000	6,412	21,127	946,431
Fund balance	<u>335,571</u>	<u>(342,939)</u>	<u>(119,733)</u>	<u>188,692</u>	<u>152,258</u>	<u>213,849</u>
Total liabilities and fund balances	<u>\$ 364,228</u>	<u>\$ 412,296</u>	<u>\$ 15,267</u>	<u>\$ 195,104</u>	<u>\$ 173,385</u>	<u>\$ 1,160,280</u>

CITY OF SOMERSET, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL NONMAJOR FUNDS
for the year ended June 30, 2018

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2018 Total
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 298,535	\$ 298,535
Intergovernmental revenues	219,513	107,500	27,958	-	-	354,971
Charges for services	-	245,029	-	15,136	-	260,165
Interest income	1,844	896	79	1,021	-	3,840
Other revenues	-	48,253	-	1,795	22,168	72,216
	<u>221,357</u>	<u>401,678</u>	<u>28,037</u>	<u>17,952</u>	<u>320,703</u>	<u>989,727</u>
Total revenues						
EXPENDITURES						
Current						
Streets	58,154	-	-	-	-	58,154
Parks and recreation	-	1,502,322	-	-	-	1,502,322
Cemetery	-	-	-	98,896	-	98,896
Travel and tourism	-	-	-	-	292,408	292,408
Capital outlay	-	378,420	-	-	-	378,420
Debt Service	-	-	-	-	-	-
	<u>58,154</u>	<u>1,880,742</u>	<u>-</u>	<u>98,896</u>	<u>292,408</u>	<u>2,330,200</u>
Total expenditures						
Excess revenues over (under) expenditures before other sources (uses)	163,203	(1,479,064)	28,037	(80,944)	28,295	(1,340,473)
Other financing sources						
Proceeds from sale of assets	-	286	-	-	-	286
Transfers from (to) other funds	-	1,253,300	-	-	(12,000)	1,241,300
	<u>-</u>	<u>1,253,586</u>	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>1,241,586</u>
Total other financing sources						
Excess revenues and other sources over (under) expenditures	163,203	(225,478)	28,037	(80,944)	16,295	(98,887)
Fund balances, beginning of year	<u>172,368</u>	<u>(117,461)</u>	<u>(147,770)</u>	<u>269,636</u>	<u>135,963</u>	<u>312,736</u>
FUND BALANCES - END OF YEAR	<u>\$ 335,571</u>	<u>\$ (342,939)</u>	<u>\$ (119,733)</u>	<u>\$ 188,692</u>	<u>\$ 152,258</u>	<u>\$ 213,849</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
GAS DEPARTMENT
for the year ended June 30, 2018

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 14,900,000	\$ 9,307,376	\$ (5,592,624)
Transportation/surcharges	1,526,000	1,156,186	(369,814)
Other operating revenues	300,000	341,418	41,418
TOTAL OPERATING REVENUES	16,726,000	10,804,980	(5,921,020)
OPERATING EXPENSES			
Gas purchases, net of refunds	10,348,120	4,953,974	(5,394,146)
Maintenance	562,500	470,188	(92,312)
Personnel services (Note 1)	1,413,750	1,671,112	257,362
Supplies	113,500	88,916	(24,584)
Utilities	60,000	67,034	7,034
Insurance	150,000	88,961	(61,039)
Engineering	355,000	79,127	(275,873)
Severance tax	10,000	32,037	22,037
Contract compression	308,000	286,054	(21,946)
Other	361,100	243,282	(117,818)
Depreciation	460,000	461,999	1,999
TOTAL OPERATING EXPENSES	14,141,970	8,442,684	(5,699,286)
OPERATING INCOME	2,584,030	2,362,296	(221,734)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	7,500	10,846	3,346
Interest expense	(27,536)	(29,025)	(1,489)
Gain (loss) on asset disposal	-	4,710	4,710
TOTAL NON-OPERATING REVENUES (EXPENSES)	(20,036)	(13,469)	6,567
INCOME BEFORE OPERATING TRANSFERS	2,563,994	2,348,827	(215,167)
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	(2,540,000)	(2,547,000)	(7,000)
TOTAL OPERATING TRANSFERS	(2,540,000)	(2,547,000)	(7,000)
INCREASE (DECREASE) IN NET POSITION	\$ 23,994	\$ (198,173)	\$ (222,167)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WATER DEPARTMENT
for the year ended June 30, 2018

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 8,707,500	\$ 7,216,967	\$ (1,490,533)
Transportation/surcharges	65,500	48,762	(16,738)
Other operating revenues	5,000	3,587	(1,413)
TOTAL OPERATING REVENUES	8,778,000	7,269,316	(1,508,684)
OPERATING EXPENSES			
Maintenance	719,000	459,599	(259,401)
Personnel services (Note 1)	1,520,500	1,923,156	402,656
Supplies	537,500	432,912	(104,588)
Utilities	850,000	797,735	(52,265)
Insurance	95,000	95,715	715
Engineering	40,000	24,606	(15,394)
Other	104,750	79,944	(24,806)
Amortization	9,022	9,022	-
Depreciation	1,400,000	1,455,163	55,163
TOTAL OPERATING EXPENSES	5,275,772	5,277,852	2,080
OPERATING INCOME (LOSS)	3,502,228	1,991,464	(1,510,764)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	18,000	26,681	8,681
Interest expense	(471,163)	(461,114)	10,049
Gain (loss) on asset disposal	-	(616)	(616)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(453,163)	(435,049)	18,114
INCOME (LOSS) BEFORE OPERATING TRANSFERS	3,049,065	1,556,415	(1,492,650)
OPERATING TRANSFERS			
Transfers in	-	-	
Transfers out	(2,179,344)	(2,172,298)	7,046
TOTAL OPERATING TRANSFERS	(2,179,344)	(2,172,298)	7,046
INCREASE (DECREASE) IN NET POSITION	\$ 869,721	\$ (615,883)	\$ (1,485,604)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WASTEWATER DEPARTMENT
for the year ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 3,462,500	\$ 2,637,340	\$ (825,160)
Transportation/surcharges	27,500	13,293	(14,207)
Other operating revenues	<u>3,075,800</u>	<u>110,400</u>	<u>(2,965,400)</u>
TOTAL OPERATING REVENUES	<u>6,565,800</u>	<u>2,761,033</u>	<u>(3,804,767)</u>
OPERATING EXPENSES			
Maintenance	524,300	318,131	(206,169)
Personnel services (Note 1)	1,239,200	1,337,486	98,286
Supplies	20,750	23,622	2,872
Utilities	365,000	430,580	65,580
Insurance	65,000	42,133	(22,867)
Engineering	35,000	30,400	(4,600)
Treatment	90,000	76,932	(13,068)
Other	3,103,470	91,361	(3,012,109)
Depreciation	<u>1,250,000</u>	<u>1,107,137</u>	<u>(142,863)</u>
TOTAL OPERATING EXPENSES	<u>6,692,720</u>	<u>3,457,782</u>	<u>(3,234,938)</u>
OPERATING INCOME (LOSS)	<u>(126,920)</u>	<u>(696,749)</u>	<u>(569,829)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	21,500	46,445	24,945
Interest expense	(198,250)	(194,313)	3,937
Gain (loss) on asset disposal	<u>-</u>	<u>1,177</u>	<u>1,177</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(176,750)</u>	<u>(146,691)</u>	<u>30,059</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(303,670)</u>	<u>(843,440)</u>	<u>(539,770)</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(240,000)</u>	<u>(20,000)</u>	<u>220,000</u>
TOTAL OPERATING TRANSFERS	<u>(240,000)</u>	<u>(20,000)</u>	<u>220,000</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (543,670)</u>	<u>\$ (863,440)</u>	<u>\$ (319,770)</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
SANITATION DEPARTMENT
for the year ended June 30, 2018

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 3,860,000	\$ 3,883,316	\$ 23,316
Other operating revenues	45,000	26,353	(18,647)
TOTAL OPERATING REVENUES	3,905,000	3,909,669	4,669
OPERATING EXPENSES			
Maintenance	309,000	290,764	(18,236)
Personnel services (Note 1)	1,191,000	1,433,403	242,403
Supplies	210,000	198,062	(11,938)
Utilities	10,000	13,717	3,717
Insurance	40,000	42,197	2,197
Landfill	1,350,000	1,079,486	(270,514)
Other	87,500	47,727	(39,773)
Depreciation	153,000	122,761	(30,239)
TOTAL OPERATING EXPENSES	3,350,500	3,228,117	(122,383)
OPERATING INCOME	554,500	681,552	127,052
NON-OPERATING REVENUES (EXPENSES)			
Interest income	3,500	8,539	5,039
Interest expense	(33,052)	(3,843)	29,209
Gain (loss) on asset disposal	-	32,400	32,400
TOTAL NON-OPERATING REVENUES (EXPENSES)	(29,552)	37,096	66,648
INCOME BEFORE OPERATING TRANSFERS	524,948	718,648	193,700
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	(478,000)	(478,000)	-
TOTAL OPERATING TRANSFERS	(478,000)	(478,000)	-
INCREASE IN NET POSITION	\$ 46,948	\$ 240,648	\$ 193,700

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
INTERNAL SERVICE FUND
for the year ended June 30, 2018

	Budget	Actual	Variance
OPERATING EXPENSES			
Maintenance	\$ -	\$ -	\$ -
Personnel services	-	-	-
Postage	-	-	-
Other	-	-	-
Depreciation	-	-	-
	-	-	-
TOTAL OPERATING EXPENSES	-	-	-
OPERATING INCOME (LOSS)	-	-	-
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	-	-
	-	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	-	-	-
(LOSS) BEFORE OPERATING TRANSFERS	-	-	-
OPERATING TRANSFERS			
Transfers in	-	151,502	151,502
Transfers out	-	-	-
	-	-	-
TOTAL OPERATING TRANSFERS	-	151,502	151,502
INCREASE (DECREASE) IN NET POSITION	\$ -	\$ 151,502	\$ 151,502

Note 1: The Internal Service Fund was closed as of July 1, 2017. The only activity in the fund during fiscal year 2018 was the transfer of all assets and liabilities to the General Fund.



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

To the Mayor and City Council
City of Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of and for the year ended June 30, 2018, 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 5, 2018.

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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 5, 2018