

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



**FINANCIAL STATEMENTS**  
**June 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

To the Mayor and the City Council  
City of 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, 2019, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *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, 2019, 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 other post-employment benefits (OPEB) schedules on pages 3–11 and 46-57 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 October 24, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Somerset, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Somerset, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
October 24, 2019

## **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, 2019. Please read it in conjunction with the City's financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total assets and deferred outflows of resources were \$151.44 million
- Total bank balances totaled \$18.4 million
- Total long-term debt decreased by \$1.74 million
- General fund reported a fund balance of \$3.15 million
- During the year, the City's business-type activities generated net revenues of \$2.9 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$37.1 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$10.9 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.

**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	
	2019	2018	2019	2018	2019	2018
Current & Other Assets	\$ (.51)	\$ .83	\$ 24.97	\$ 24.80	\$ 24.46	\$ 25.63
Capital Assets	31.83	33.49	82.78	85.05	114.61	118.54
Deferred Outflows	<u>10.02</u>	<u>12.39</u>	<u>2.35</u>	<u>2.75</u>	<u>12.37</u>	<u>15.14</u>
Total Assets and Deferred Outflows	<u>41.34</u>	<u>46.71</u>	<u>110.10</u>	<u>112.60</u>	<u>151.44</u>	<u>159.31</u>
Other Liabilities	2.02	2.47	2.34	2.65	4.36	5.12
Long Term Liabilities	51.90	52.28	36.88	37.70	88.78	89.98
Deferred Inflows	<u>2.46</u>	<u>1.14</u>	<u>.80</u>	<u>.50</u>	<u>3.26</u>	<u>1.64</u>
Total Liabilities/Deferred Inflows	<u>56.38</u>	<u>55.89</u>	<u>40.02</u>	<u>40.85</u>	<u>96.40</u>	<u>96.74</u>
Net investment in capital assets	16.73	17.78	55.29	56.44	72.02	74.22
Restricted	1.16	1.60	.66	.80	1.82	2.40
Unrestricted	<u>(32.93)</u>	<u>(28.56)</u>	<u>14.13</u>	<u>14.51</u>	<u>(18.80)</u>	<u>(14.05)</u>
Total Net Position	<u>\$ (15.04)</u>	<u>\$ (9.18)</u>	<u>\$ 70.08</u>	<u>\$ 71.75</u>	<u>\$ 55.04</u>	<u>\$ 62.57</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 \$4.75 million during fiscal year 2019. 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 decreased from \$46.71 million at June 30, 2018 to 41.34 million at June 30, 2019. The major contributing factor for this decrease 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	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 5.69	\$ 5.82	\$ 24.09	\$ 24.74	\$ 29.78	\$ 30.56
Federal & State Grants	2.23	2.25	-	-	2.23	2.25
General Revenues						
Property Taxes	1.46	1.45	-	-	1.46	1.45
Other Taxes and License Fees	7.82	7.74	-	-	7.82	7.74
Other General Revenues	<u>1.35</u>	<u>.33</u>	<u>.14</u>	<u>.09</u>	<u>1.49</u>	<u>.42</u>
Total Revenues	<u>\$ 18.55</u>	<u>\$ 17.59</u>	<u>\$ 24.23</u>	<u>\$ 24.83</u>	<u>\$ 42.78</u>	<u>\$ 42.42</u>
<b>Program Expenses</b>						
General Government	4.44	4.52	-	-	4.44	4.52
Public Safety	9.26	8.30	-	-	9.26	8.30
Public Services	.23	.18	-	-	.23	.18
Streets	1.90	1.78	-	-	1.90	1.78
Parks and Recreation	1.59	1.75	-	-	1.59	1.75
Emergency Medical Services	6.50	5.91	-	-	6.50	5.91
Cemetery	.13	.11	-	-	.13	.11
Fuel Center	1.58	1.40	-	-	1.58	1.40
Waterpark	2.04	1.99	-	-	2.04	1.99
Travel & Tourism	.24	.30	-	-	.24	.30
Intergovernmental Programs	.35	.18	-	-	.35	.18
Downtown Revitalization	.14	.13	-	-	.14	.13
Debt Service – Interest	.53	.54	-	-	.53	.54
Gas	-	-	8.18	8.47	8.18	8.47
Water	-	-	5.97	5.73	5.97	5.73
Wastewater	-	-	3.43	3.65	3.43	3.65
Sanitation	-	-	<u>3.89</u>	<u>3.23</u>	<u>3.89</u>	<u>3.23</u>
Total Expense	<u>\$ 28.93</u>	<u>\$ 27.09</u>	<u>\$ 21.47</u>	<u>\$ 21.08</u>	<u>\$ 50.40</u>	<u>\$ 48.17</u>
Gain (Loss) on disposal of capital assets	(.04)	(1.49)	.13	.04	.09	(1.45)
Excess (Deficiency) before Transfer	(10.42)	(10.99)	2.89	3.79	(7.53)	(7.20)
Transfer	<u>4.56</u>	<u>5.07</u>	<u>(4.56)</u>	<u>(5.07)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(5.86)	(5.92)	(1.67)	(1.28)	(7.53)	(7.20)
Net Position, beginning	<u>(9.18)</u>	<u>(3.26)</u>	<u>71.75</u>	<u>73.03</u>	<u>62.57</u>	<u>69.77</u>
Net Position, ending	<u>\$(15.04)</u>	<u>\$ (9.18)</u>	<u>\$ 70.08</u>	<u>\$ 71.75</u>	<u>\$ 55.04</u>	<u>\$ 62.57</u>

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

The City's total revenues increased by \$.36 million. The total cost of all programs and services increased by \$2.23 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 \$28.93 million compared to \$27.09 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2019 from \$5.82 million to \$5.69 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.28 million in taxes and license fees, \$2.23 million in grants and entitlements, \$1.35 million of other revenues, and \$4.56 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 \$2.0 million and shows the financial burden that was placed on the City's taxpayers by each of these functions. The major contributing factors for this increase is due to the GASB OPEB reporting requirement and retirement and health benefit increases.

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

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Emergency Medical Services	\$ 6.50	\$ 5.91	\$ 2.23	\$ 1.50
Police and Fire Department	9.26	8.30	8.88	7.81
Streets	1.90	1.78	1.64	1.51
Waterpark	2.04	1.99	.94	.82
Parks and recreation	1.59	1.74	1.41	1.39
All Others	<u>7.65</u>	<u>7.36</u>	<u>5.91</u>	<u>5.98</u>
Totals	<u>\$ 28.94</u>	<u>\$ 27.08</u>	<u>\$ 21.01</u>	<u>\$ 19.01</u>

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

### **Business-Type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by \$.60 million (\$24.83 million in 2018 compared to \$24.23 million in 2019) and expenses increased by \$.39 million (\$21.08 million in 2018 compared to \$21.47 million in 2019). The factors driving these results include:

The major decrease in revenue for this fiscal year is due to a milder winter as well as a large user being shut down for remodeling and a significant drop in the transportation of natural gas due to one of the producers shipping gas in a different direction. The major contributing factor for the increase in expense is due to the GASB OPEB reporting requirement and retirement and health benefit increases.

- 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 \$3.15 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 \$1.69 million more than the \$9.2 million budgeted, while actual expenditures were \$1.5 million less than the expected \$15.4 million budgeted.

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

#### **Capital Assets**

At the end of 2019, the City had \$114.60 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water, gas and sewer lines. (See Table 4 below).

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

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 2.18	\$ 2.18	\$ .90	\$ .90	\$ 3.08	\$ 3.08
Right of Way and Easements	.01	.01	.14	.14	.15	.15
Construction in Progress	.42	.41	.16	.12	.58	.53
Infrastructure	13.28	14.11	-	-	13.28	14.11
Utility Plant and Distribution System	-	-	44.37	46.15	44.37	46.15
Buildings and Improvements	13.95	14.47	34.96	35.96	48.91	50.43
Vehicles	1.34	1.56	1.37	0.82	2.71	2.38
Equipment	.40	.44	.41	0.48	.81	.92
Office Equipment	.01	.02	.39	0.40	0.40	0.42
Land Improvements	<u>.24</u>	<u>.29</u>	<u>.07</u>	<u>.07</u>	<u>0.31</u>	<u>0.36</u>
Total	<u>\$ 31.83</u>	<u>\$ 33.49</u>	<u>\$ 82.77</u>	<u>\$ 85.04</u>	<u>\$ 114.60</u>	<u>\$ 118.53</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Fischer Fun Park (Handicapped/All Inclusive Park) was completed as of the year end. The City completed the Grand Central Water Line Relocation and the East Ridge drainage project, and several other projects all around the City including streets, sidewalks etc.

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, 2019, the City's Governmental Activities long term debt had decreased by \$.61 million and the Business-Type Activities long term debt decreased by \$1.13 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$1.64 million and \$.29 million respectively. We are now required to include our OPEB Liability, which decreased in the Governmental and Business-Type Activities by \$1.46 million and \$.26 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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Long-Term Debt	\$ 15.10	\$ 15.71	\$ 27.55	\$ 28.68	\$ 42.65	\$ 44.39
Net Pension Liability	28.87	27.23	8.19	7.90	37.06	35.13
Net OPEB Liability	<u>8.49</u>	<u>9.95</u>	<u>2.39</u>	<u>2.65</u>	<u>10.88</u>	<u>12.60</u>
Totals	<u>\$ 52.46</u>	<u>\$ 52.89</u>	<u>\$ 38.13</u>	<u>\$ 39.23</u>	<u>\$ 90.59</u>	<u>\$ 92.12</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, 2019**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,266,019	\$ 7,389,308	\$ 10,655,327
Certificates of deposit	1,008,194	5,160,042	6,168,236
Receivables, net	2,612,596	2,203,051	4,815,647
Note receivable - current	-	251,628	251,628
Accrued interest receivable	788	5,778	6,566
Inventories	130,635	777,736	908,371
Prepaid expenses	9,536	13,321	22,857
Internal balances, net	<u>(8,425,023)</u>	<u>8,425,023</u>	<u>-</u>
Total current assets	<u>(1,397,255)</u>	<u>24,225,887</u>	<u>22,828,632</u>
Noncurrent assets			
Restricted cash and cash equivalents	884,065	658,583	1,542,648
Note receivable - long-term	-	21,369	21,369
Excess cost over market value of assets acquired, net	-	60,214	60,214
Capital assets			
Nondepreciable capital assets	2,612,885	1,215,319	3,828,204
Depreciable capital assets, net	<u>29,220,519</u>	<u>81,564,106</u>	<u>110,784,625</u>
Total noncurrent assets	<u>32,717,469</u>	<u>83,519,591</u>	<u>116,237,060</u>
Total assets	<u>31,320,214</u>	<u>107,745,478</u>	<u>139,065,692</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	6,942,877	1,665,834	8,608,711
Deferred outflows - OPEB	<u>3,078,796</u>	<u>688,917</u>	<u>3,767,713</u>
Total deferred outflows of resources	<u>10,021,673</u>	<u>2,354,751</u>	<u>12,376,424</u>
Total assets and deferred outflows of resources	<u>\$ 41,341,887</u>	<u>\$ 110,100,229</u>	<u>\$ 151,442,116</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 302,668	\$ 629,544	\$ 932,212
Accrued interest payable	174,751	156,104	330,855
Other current liabilities	971,629	300,971	1,272,600
Current portion of long-term debt	<u>568,458</u>	<u>1,254,124</u>	<u>1,822,582</u>
Total current liabilities	<u>2,017,506</u>	<u>2,340,743</u>	<u>4,358,249</u>
Noncurrent liabilities			
Notes payable	157,993	6,273,587	6,431,580
Bonds payable	14,376,690	20,023,050	34,399,740
Net pension liability	28,874,866	8,193,008	37,067,874
Net OPEB liability	<u>8,489,691</u>	<u>2,388,510</u>	<u>10,878,201</u>
Total noncurrent liabilities	<u>51,899,240</u>	<u>36,878,155</u>	<u>88,777,395</u>
Total liabilities	<u>53,916,746</u>	<u>39,218,898</u>	<u>93,135,644</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	647,263	319,638	966,901
Deferred inflows - OPEB	<u>1,816,841</u>	<u>485,604</u>	<u>2,302,445</u>
Total deferred inflows of resources	<u>2,464,104</u>	<u>805,242</u>	<u>3,269,346</u>
<b>NET POSITION</b>			
Net investment in capital assets	16,730,263	55,288,878	72,019,141
Restricted for			
Debt service	707,866	658,583	1,366,449
Other purposes	452,830	-	452,830
Unrestricted	<u>(32,929,922)</u>	<u>14,128,628</u>	<u>(18,801,294)</u>
Total net position	<u>(15,038,963)</u>	<u>70,076,089</u>	<u>55,037,126</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,341,887</u>	<u>\$ 110,100,229</u>	<u>\$ 151,442,116</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, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating		Capital	Primary Government		Total
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 4,438,211	\$ -	\$ 241,853	\$ -	\$ (4,196,358)	\$ -	\$ (4,196,358)
Public safety	9,262,090	-	377,281	-	(8,884,809)	-	(8,884,809)
Public services	228,379	-	-	-	(228,379)	-	(228,379)
Streets	1,896,331	-	252,777	-	(1,643,554)	-	(1,643,554)
Parks and recreation	1,589,563	175,800	-	-	(1,413,763)	-	(1,413,763)
Emergency medical services	6,495,207	2,901,406	1,362,974	-	(2,230,827)	-	(2,230,827)
Cemetery	126,875	24,016	-	-	(102,859)	-	(102,859)
Waterpark	2,040,132	1,100,942	-	-	(939,190)	-	(939,190)
Fuel center	1,583,535	1,492,686	-	-	(90,849)	-	(90,849)
Travel and tourism	248,388	-	-	-	(248,388)	-	(248,388)
Intergovernmental programs	363,971	-	-	-	(363,971)	-	(363,971)
Downtown revitalization	143,875	-	-	-	(143,875)	-	(143,875)
Interest on long-term debt	526,554	-	-	-	(526,554)	-	(526,554)
Total governmental activities	28,943,111	5,694,850	2,234,885	-	(21,013,376)	-	(21,013,376)
<b>Business-type activities</b>							
Gas department	8,178,081	9,666,400	-	-	-	1,488,319	1,488,319
Water department	5,970,955	7,575,077	-	-	-	1,604,122	1,604,122
Wastewater department	3,429,679	2,852,413	-	-	-	(577,266)	(577,266)
Sanitation department	3,887,160	3,993,412	-	-	-	106,252	106,252
Total business-type activities	21,465,875	24,087,302	-	-	-	2,621,427	2,621,427
<b>Total primary government</b>	<b>\$ 50,408,986</b>	<b>\$ 29,782,152</b>	<b>\$ 2,234,885</b>	<b>\$ -</b>	<b>(21,013,376)</b>	<b>2,621,427</b>	<b>(18,391,949)</b>
<b>General revenues</b>							
Taxes:							
Property taxes					1,460,414	-	1,460,414
Transient room tax					214,384	-	214,384
License fees:							
Franchise					907,810	-	907,810
Business					316,555	-	316,555
Insurance premiums					1,806,022	-	1,806,022
Occupational					3,830,556	-	3,830,556
ABC					678,670	-	678,670
Permits:							
Building					54,504	-	54,504
Planning and Zoning					4,824	-	4,824
Stormwater					8,210	-	8,210
Investment earnings					61,353	139,407	200,760
Miscellaneous					1,285,258	-	1,285,258
Total general revenues					10,628,560	139,407	10,767,967
Gain (loss) on disposal of capital assets					(36,949)	132,460	95,511
Transfers in (out)					4,561,955	(4,561,955)	-
<b>Change in Net Position</b>					<b>(5,859,810)</b>	<b>(1,668,661)</b>	<b>(7,528,471)</b>
Net position-beginning					(9,179,153)	71,744,750	62,565,597
<b>NET POSITION-ENDING</b>					<b>\$ (15,038,963)</b>	<b>\$ 70,076,089</b>	<b>\$ 55,037,126</b>

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

**CITY OF SOMERSET, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019**

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,220,468	\$ 172,444	\$ 169,466	\$ 34,692	\$ 553,014	\$ 4,150,084
Certificates of deposit	1,008,194	-	-	-	-	1,008,194
Receivables, net	1,626,564	723,771	149,727	29,266	83,268	2,612,596
Interest receivable	788	-	-	-	-	788
Inventories	9,682	-	18,007	87,150	15,796	130,635
Prepaid expenses	6,059	2,531	175	35	736	9,536
Due from other funds	<u>6,359,815</u>	<u>-</u>	<u>-</u>	<u>37,222</u>	<u>373</u>	<u>6,397,410</u>
Total assets	<u>\$ 12,231,570</u>	<u>\$ 898,746</u>	<u>\$ 337,375</u>	<u>\$ 188,365</u>	<u>\$ 653,187</u>	<u>\$ 14,309,243</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Accounts payable	\$ 213,799	\$ 8,650	\$ 49,562	\$ 21,303	\$ 9,354	\$ 302,668
Due to other funds	8,258,206	1,846,514	4,296,109	57,575	364,029	14,822,433
Other current liabilities	<u>613,933</u>	<u>203,054</u>	<u>61,451</u>	<u>2,838</u>	<u>90,353</u>	<u>971,629</u>
Total liabilities	<u>9,085,938</u>	<u>2,058,218</u>	<u>4,407,122</u>	<u>81,716</u>	<u>463,736</u>	<u>16,096,730</u>
Fund balances						
Nonspendable	15,741	2,531	18,182	87,185	16,532	140,171
Restricted	828,996	-	-	-	331,700	1,160,696
Committed	-	-	-	-	77,150	77,150
Assigned	939,499	-	-	-	-	939,499
Unassigned	<u>1,361,396</u>	<u>(1,162,003)</u>	<u>(4,087,929)</u>	<u>19,464</u>	<u>(235,931)</u>	<u>(4,105,003)</u>
Total fund balances	<u>3,145,632</u>	<u>(1,159,472)</u>	<u>(4,069,747)</u>	<u>106,649</u>	<u>189,451</u>	<u>(1,787,487)</u>
Total liabilities and fund balances	<u>\$ 12,231,570</u>	<u>\$ 898,746</u>	<u>\$ 337,375</u>	<u>\$ 188,365</u>	<u>\$ 653,187</u>	<u>\$ 14,309,243</u>

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

Fund balances reported above	\$ (1,787,487)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	31,833,404
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(174,751)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	7,557,569
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>(52,467,698)</u>
Net position of governmental activities	<u>\$ (15,038,963)</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, 2019**

	<u>General</u>	<u>EMS</u>	<u>Waterpark</u>	<u>Fuel Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes	\$ 1,460,414	\$ -	\$ -	\$ -	\$ 214,384	\$ 1,674,798
Licenses and permits	7,607,151	-	-	-	-	7,607,151
Fines and forfeits	85,485	-	-	-	-	85,485
Charges for services	-	2,901,406	1,100,942	1,492,686	199,816	5,694,850
Intergovernmental	619,134	1,362,974	-	-	252,777	2,234,885
Interest income	56,211	1,147	706	307	2,982	61,353
Other revenues	<u>1,057,163</u>	<u>41,911</u>	<u>31,049</u>	<u>-</u>	<u>69,650</u>	<u>1,199,773</u>
Total revenues	<u>10,885,558</u>	<u>4,307,438</u>	<u>1,132,697</u>	<u>1,492,993</u>	<u>739,609</u>	<u>18,558,295</u>
<b>EXPENDITURES</b>						
Current:						
General administration	3,695,953	-	-	-	-	3,695,953
Public safety	7,145,043	-	-	-	-	7,145,043
Public services	228,379	-	-	-	-	228,379
Streets	1,142,745	-	-	-	114,550	1,257,295
Parks and recreation	-	-	-	-	1,302,904	1,302,904
Emergency medical services	-	5,042,133	-	-	-	5,042,133
Cemetery	-	-	-	-	115,592	115,592
Waterpark	-	-	1,317,690	-	-	1,317,690
Fuel center	-	-	-	1,547,229	-	1,547,229
Travel and tourism	-	-	-	-	243,074	243,074
Downtown revitalization	143,875	-	-	-	-	143,875
Intergovernmental programs	353,064	-	-	-	-	353,064
Capital outlay	201,874	26,665	-	-	309,387	537,926
Debt service	<u>1,001,252</u>	<u>27,114</u>	<u>108,893</u>	<u>-</u>	<u>-</u>	<u>1,137,259</u>
Total expenditures	<u>13,912,185</u>	<u>5,095,912</u>	<u>1,426,583</u>	<u>1,547,229</u>	<u>2,085,507</u>	<u>24,067,416</u>
Excess (deficiency) of revenues over expenditures	<u>(3,026,627)</u>	<u>(788,474)</u>	<u>(293,886)</u>	<u>(54,236)</u>	<u>(1,345,898)</u>	<u>(5,509,121)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from sale of assets	8,705	505	-	-	-	9,210
Transfers in (out)	<u>2,894,112</u>	<u>(25,000)</u>	<u>371,343</u>	<u>-</u>	<u>1,321,500</u>	<u>4,561,955</u>
Total other financing sources and uses	<u>2,902,817</u>	<u>(24,495)</u>	<u>371,343</u>	<u>-</u>	<u>1,321,500</u>	<u>4,571,165</u>
<b>Net change in fund balances</b>	(123,810)	(812,969)	77,457	(54,236)	(24,398)	(937,956)
Fund balances-beginning	<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>
<b>Fund balances-ending</b>	<u>\$ 3,145,632</u>	<u>\$ (1,159,472)</u>	<u>\$ (4,069,747)</u>	<u>\$ 106,649</u>	<u>\$ 189,451</u>	<u>\$ (1,787,487)</u>

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (937,956)
add: capital outlay expenditures capitalized	537,926
add: debt service expenditures	1,137,259
less: proceeds from sale of assets	(9,210)
less: loss on disposal of capital assets	(36,949)
less: depreciation on governmental activities assets	(2,149,682)
less: change in net pension liability	(3,297,740)
less: change in net OPEB liability	(576,904)
less: interest on long term debt	<u>(526,554)</u>
Change in net position Governmental Activities	<u>\$ (5,859,810)</u>

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

**CITY OF SOMERSET, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS**

**June 30, 2019**

	<b>Business-type Activities</b>				<b>Total</b>
	<b>Gas Department</b>	<b>Water Department</b>	<b>Wastewater Department</b>	<b>Sanitation Department</b>	
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 2,251,533	\$ 2,994,164	\$ 840,552	\$ 1,303,059	\$ 7,389,308
Certificates of deposit	-	1,259,830	3,300,133	600,079	5,160,042
Receivables, net	626,180	794,670	334,512	447,689	2,203,051
Note receivable - current	251,628	-	-	-	251,628
Accrued interest receivable	341	628	4,261	548	5,778
Inventories	370,736	349,434	57,566	-	777,736
Prepaid expenses	1,086	1,259	993	9,983	13,321
Due from other funds	<u>3,018,659</u>	<u>5,183,805</u>	<u>226,137</u>	<u>1,676,860</u>	<u>10,105,461</u>
<b>Total current assets</b>	<b><u>6,520,163</u></b>	<b><u>10,583,790</u></b>	<b><u>4,764,154</u></b>	<b><u>4,038,218</u></b>	<b><u>25,906,325</u></b>
<b>Noncurrent assets</b>					
Restricted cash and cash equivalents	-	553,583	105,000	-	658,583
Note receivable - long-term	21,369	-	-	-	21,369
Excess cost over market value of assets acquired, net	-	60,214	-	-	60,214
<b>Capital assets</b>					
Nondepreciable capital assets	269,284	663,710	282,325	-	1,215,319
Depreciable capital assets	26,966,780	69,220,265	45,900,029	3,073,019	145,160,093
Less accumulated depreciation	<u>(19,994,887)</u>	<u>(21,614,041)</u>	<u>(20,290,780)</u>	<u>(1,696,279)</u>	<u>(63,595,987)</u>
<b>Total noncurrent assets</b>	<b><u>7,262,546</u></b>	<b><u>48,883,731</u></b>	<b><u>25,996,574</u></b>	<b><u>1,376,740</u></b>	<b><u>83,519,591</u></b>
<b>Total assets</b>	<b><u>13,782,709</u></b>	<b><u>59,467,521</u></b>	<b><u>30,760,728</u></b>	<b><u>5,414,958</u></b>	<b><u>109,425,916</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows - pension	457,275	497,602	340,346	370,611	1,665,834
Deferred outflows - OPEB	<u>189,109</u>	<u>205,787</u>	<u>140,752</u>	<u>153,269</u>	<u>688,917</u>
<b>Total deferred outflows of resources</b>	<b><u>646,384</u></b>	<b><u>703,389</u></b>	<b><u>481,098</u></b>	<b><u>523,880</u></b>	<b><u>2,354,751</u></b>
<b>Total assets and deferred outflows of resources</b>	<b><u>\$ 14,429,093</u></b>	<b><u>\$ 60,170,910</u></b>	<b><u>\$ 31,241,826</u></b>	<b><u>\$ 5,938,838</u></b>	<b><u>\$ 111,780,667</u></b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 293,273	\$ 150,092	\$ 45,914	\$ 140,265	\$ 629,544
Due to other funds	82,667	101,886	1,425,343	70,542	1,680,438
Accrued interest payable	4,476	136,025	14,570	1,033	156,104
Other current liabilities	101,353	96,457	52,928	50,233	300,971
Current portion of long-term debt	<u>52,737</u>	<u>516,076</u>	<u>565,774</u>	<u>119,537</u>	<u>1,254,124</u>
<b>Total current liabilities</b>	<b><u>534,506</u></b>	<b><u>1,000,536</u></b>	<b><u>2,104,529</u></b>	<b><u>381,610</u></b>	<b><u>4,021,181</u></b>
<b>Noncurrent liabilities</b>					
Notes payable	52,201	3,850,754	1,861,189	509,443	6,273,587
Bonds payable	676,335	12,529,000	6,817,715	-	20,023,050
Net pension liability	2,248,996	2,447,341	1,673,909	1,822,762	8,193,008
Net OPEB liability	<u>655,651</u>	<u>713,474</u>	<u>487,995</u>	<u>531,390</u>	<u>2,388,510</u>
<b>Total noncurrent liabilities</b>	<b><u>3,633,183</u></b>	<b><u>19,540,569</u></b>	<b><u>10,840,808</u></b>	<b><u>2,863,595</u></b>	<b><u>36,878,155</u></b>
<b>Total liabilities</b>	<b><u>4,167,689</u></b>	<b><u>20,541,105</u></b>	<b><u>12,945,337</u></b>	<b><u>3,245,205</u></b>	<b><u>40,899,336</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows - pension	87,742	95,479	65,305	71,112	319,638
Deferred inflows - OPEB	<u>133,299</u>	<u>145,055</u>	<u>99,213</u>	<u>108,037</u>	<u>485,604</u>
<b>Total deferred inflows of resources</b>	<b><u>221,041</u></b>	<b><u>240,534</u></b>	<b><u>164,518</u></b>	<b><u>179,149</u></b>	<b><u>805,242</u></b>
<b>NET POSITION</b>					
Net investment in capital assets	6,459,904	31,434,318	16,646,896	747,760	55,288,878
Restricted for debt service	-	553,583	105,000	-	658,583
Unrestricted	<u>3,580,459</u>	<u>7,401,370</u>	<u>1,380,075</u>	<u>1,766,724</u>	<u>14,128,628</u>
<b>Total net position</b>	<b><u>10,040,363</u></b>	<b><u>39,389,271</u></b>	<b><u>18,131,971</u></b>	<b><u>2,514,484</u></b>	<b><u>70,076,089</u></b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b><u>\$ 14,429,093</u></b>	<b><u>\$ 60,170,910</u></b>	<b><u>\$ 31,241,826</u></b>	<b><u>\$ 5,938,838</u></b>	<b><u>\$ 111,780,667</u></b>

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, 2019**

	<b>Business-type Activities</b>				<b>Total</b>
	<b>Gas Department</b>	<b>Water Department</b>	<b>Wastewater Department</b>	<b>Sanitation Department</b>	
<b>Operating revenues</b>					
Sales to customers	\$ 8,329,380	\$ 7,315,528	\$ 2,688,181	\$ 3,931,723	\$ 22,264,812
Transportation/surcharges	978,396	120,400	26,252	-	1,125,048
Other operating revenues	358,624	139,149	137,980	61,689	697,442
Total operating revenues	<u>9,666,400</u>	<u>7,575,077</u>	<u>2,852,413</u>	<u>3,993,412</u>	<u>24,087,302</u>
<b>Operating expenses</b>					
Gas purchases, net of refunds	4,083,321	-	-	-	4,083,321
Operating expenses	2,944,020	3,641,233	1,733,448	3,467,886	11,786,587
Maintenance	656,213	417,030	430,530	232,713	1,736,486
Depreciation	465,984	1,463,532	1,080,523	177,320	3,187,359
Amortization	-	9,022	-	-	9,022
Total operating expenses	<u>8,149,538</u>	<u>5,530,817</u>	<u>3,244,501</u>	<u>3,877,919</u>	<u>20,802,775</u>
Operating income (loss)	<u>1,516,862</u>	<u>2,044,260</u>	<u>(392,088)</u>	<u>115,493</u>	<u>3,284,527</u>
<b>Nonoperating revenues (expenses)</b>					
Gain (loss) on disposal of capital assets	4,322	(4,097)	(2,244)	134,479	132,460
Interest and investment revenue	14,759	31,674	74,948	18,026	139,407
Interest expense	(28,546)	(440,138)	(185,178)	(9,241)	(663,103)
Total nonoperating revenues (expenses)	<u>(9,465)</u>	<u>(412,561)</u>	<u>(112,474)</u>	<u>143,264</u>	<u>(391,236)</u>
Income (loss) before transfers	1,507,397	1,631,699	(504,562)	258,757	2,893,291
Transfers in (out)	<u>(2,700,000)</u>	<u>(1,490,609)</u>	<u>-</u>	<u>(371,343)</u>	<u>(4,561,952)</u>
<b>Change in net position</b>	<u>(1,192,603)</u>	<u>141,090</u>	<u>(504,562)</u>	<u>(112,586)</u>	<u>(1,668,661)</u>
Total net position-beginning	<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>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 10,040,363</u>	<u>\$ 39,389,271</u>	<u>\$ 18,131,971</u>	<u>\$ 2,514,484</u>	<u>\$ 70,076,089</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, 2019

	<u>Business-type Activities</u>				
	<u>Gas Department</u>	<u>Water Department</u>	<u>Wastewater Department</u>	<u>Sanitation Department</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 9,395,425	\$ 7,315,232	\$ 2,729,708	\$ 3,933,581	\$ 23,373,946
Cash payments to suppliers for goods and services	(5,787,378)	(2,115,280)	(1,106,331)	(1,895,207)	(10,904,196)
Cash payments to employees	(1,530,833)	(1,728,972)	(1,163,399)	(1,342,274)	(5,765,478)
Other operating revenues	<u>358,624</u>	<u>139,149</u>	<u>137,980</u>	<u>61,689</u>	<u>697,442</u>
<b>Net cash provided by operating activities</b>	<u>2,435,838</u>	<u>3,610,129</u>	<u>597,958</u>	<u>757,789</u>	<u>7,401,714</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts (payments) on interfund loans	331,896	2,289	115,335	3,432	452,952
Transfers (to) from other funds	<u>(2,700,000)</u>	<u>(1,490,609)</u>	<u>-</u>	<u>(371,343)</u>	<u>(4,561,952)</u>
<b>Net cash provided (used) by non-capital financing activities</b>	<u>(2,368,104)</u>	<u>(1,488,320)</u>	<u>115,335</u>	<u>(367,911)</u>	<u>(4,109,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on bonds and notes	(25,851)	(887,415)	(520,875)	(102,285)	(1,536,426)
Interest paid on bonds and notes	(28,820)	(453,724)	(185,802)	(9,011)	(677,357)
Proceeds from issuance of debt	37,275	-	-	384,369	421,644
Acquisition and construction of capital assets	(37,275)	(142,150)	(22,225)	(689,907)	(891,557)
Proceeds from sale of assets	<u>8,160</u>	<u>3,703</u>	<u>5,156</u>	<u>135,479</u>	<u>152,498</u>
<b>Net cash (used) by capital and related financing activities</b>	<u>(46,511)</u>	<u>(1,479,586)</u>	<u>(723,746)</u>	<u>(281,355)</u>	<u>(2,531,198)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from certificates of deposit	-	-	500,045	-	500,045
Interest income	<u>14,418</u>	<u>31,377</u>	<u>73,155</u>	<u>17,762</u>	<u>136,712</u>
<b>Net cash provided by investing activities</b>	<u>14,418</u>	<u>31,377</u>	<u>573,200</u>	<u>17,762</u>	<u>636,757</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	35,641	673,600	562,747	126,285	1,398,273
<b>Balances-beginning of the year</b>	<u>2,215,892</u>	<u>2,874,147</u>	<u>382,805</u>	<u>1,176,774</u>	<u>6,649,618</u>
<b>BALANCES-END OF THE YEAR</b>	<u>\$ 2,251,533</u>	<u>\$ 3,547,747</u>	<u>\$ 945,552</u>	<u>\$ 1,303,059</u>	<u>\$ 8,047,891</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss):	\$ 1,516,862	\$ 2,044,260	\$ (392,088)	\$ 115,493	\$ 3,284,527
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	465,984	1,463,532	1,080,523	177,320	3,187,359
Amortization expense	-	9,022	-	-	9,022
Net pension liability activity	175,154	148,857	(115,870)	370,382	578,523
Net OPEB liability activity	66,226	32,827	15,045	47,991	162,089
Change in assets and liabilities:					
Receivables, net	360,646	(120,696)	15,275	1,858	257,083
Note receivable	(272,997)	-	-	-	(272,997)
Inventory	199,494	3,730	3,180	-	206,404
Prepaid expenses	24,669	28,308	17,343	11,267	81,587
Accounts payable	(81,281)	1,603	(8,163)	36,937	(50,904)
Other liabilities	<u>(18,919)</u>	<u>(1,314)</u>	<u>(17,287)</u>	<u>(3,459)</u>	<u>(40,979)</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 2,435,838</u>	<u>\$ 3,610,129</u>	<u>\$ 597,958</u>	<u>\$ 757,789</u>	<u>\$ 7,401,714</u>
<b>Supplemental disclosure of cash flow information:</b>					
Noncash capital and related financing activities:					
Payables for capital items, net	<u>\$ 17,893</u>	<u>\$ 41,783</u>	<u>\$ (11,354)</u>	<u>\$ -</u>	<u>\$ 48,322</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The accompanying financial statements of the City present the City's primary government over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. All related entities were evaluated using these criteria and 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.

**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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

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. 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, occupational, and franchise fees, and grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 revenues and expenses. 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.

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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

The City reports the following major 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.

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 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 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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**D. Fund Balance (continued)**

*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.

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	\$ 9,682	\$ -	\$ 18,007	\$ 87,150	\$ 15,796	\$ 130,635
Prepays	6,059	2,531	175	35	736	9,536
Restricted						
Debt service	828,996	-	-	-	-	828,996
Road repair	-	-	-	-	192,313	192,313
Tourism	-	-	-	-	84,317	84,317
Parks	-	-	-	-	55,070	55,070
Committed						
Cemetery	-	-	-	-	77,150	77,150
Assigned						
Debt Service	939,499	-	-	-	-	939,499
Unassigned	<u>1,361,396</u>	<u>(1,162,003)</u>	<u>(4,087,929)</u>	<u>19,464</u>	<u>(235,931)</u>	<u>(4,105,003)</u>
Total	<u>\$ 3,145,632</u>	<u>\$(1,159,472)</u>	<u>\$(4,069,747)</u>	<u>\$ 106,649</u>	<u>\$ 189,451</u>	<u>\$(1,787,487)</u>

As of June 30, 2019, the following nonmajor funds reported a deficit in fund balance:

Parks & Recreation Fund	\$(90,684)
Coal & Mineral Severance Fund	\$(88,550)

**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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**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.

**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. KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the proprietary 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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

Accounts Receivable

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

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

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

Capital Assets and Depreciation

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

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

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

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

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

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

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

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.

**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 October 24, 2019, 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, 2019, have not been evaluated by the City.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**2. CASH AND INVESTMENTS**

Custodial Credit Risks – Deposits

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

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2019 are as follows:

Carrying amount	\$ 18,366,211
Bank balance	\$ 19,203,170
FDIC Insurance	\$ 1,659,543
Bank Deposit Guaranty Bond	\$ 2,342,035
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	\$ 15,201,592
Uninsured and uncollateralized	\$ -

**3. ACCOUNTS AND NOTES RECEIVABLE**

Accounts Receivable

Account receivables at June 30, 2019 for all funds of the City are as follows:

	Accounts	Taxes	Licenses & Permits	Intergov.	Other	Allowance	Total
General Fund	\$ 71,584	\$ 33,171	\$ 1,440,705	\$ 22,950	\$ 126,450	\$ (68,296)	\$ 1,626,564
EMS Fund	2,242,432	-	-	-	17,626	(1,536,287)	723,771
Waterpark	149,727	-	-	-	-	-	149,727
Fuel Center	-	-	-	-	29,266	-	29,266
Other Gov.	28,855	-	-	67,518	-	(13,105)	83,268
Gas	470,330	-	-	17,893	137,957	-	626,180
Water	683,697	-	-	52,550	58,423	-	794,670
Wastewater	324,142	-	-	10,370	-	-	334,512
Sanitation	447,689	-	-	-	-	-	447,689
Totals	<u>\$ 4,418,456</u>	<u>\$ 33,171</u>	<u>\$ 1,440,705</u>	<u>\$ 171,281</u>	<u>\$ 369,722</u>	<u>\$ (1,617,688)</u>	<u>\$ 4,815,647</u>

Note Receivable

On February 15, 2019, the City entered into an agreement with Continental Refinery Company, LLC (the Company) for repayment of previous gas services provided. The aggregate principal to be repaid is \$375,658 over a period of 18 months. Monthly payments began in February 2019 with the final payment due in July 2020. The note bears interest at a rate of 3%. Annual future payments due from the Company are as follows:

Year ended	Principal	Interest	Total
2020	\$ 251,628	\$ 4,748	\$ 256,376
2021	<u>21,369</u>	<u>53</u>	<u>21,422</u>
Totals	<u>\$ 272,997</u>	<u>\$ 4,801</u>	<u>\$ 277,798</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**4. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables within governmental activities and business-type activities not eliminated for purposes of government-wide financial statements as of June 30, 2019 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Gas Department	\$ 79,516
General Fund	Water Department	96,710
General Fund	Wastewater Department	920,718
General Fund	Sanitation Department	63,521
Fuel Center Fund	Gas Department	3,151
Fuel Center Fund	Water Department	1,843
Fuel Center Fund	Wastewater Department	3,123
Fuel Center Fund	Sanitation Department	7,023
Gas Department	General Fund	(3,011,993)
Water Department	General Fund	(3,883,638)
Water Department	Waterpark	(1,300,000)
Wastewater Department	General Fund	(226,137)
Sanitation Department	Fuel Center	(55,000)
Sanitation Department	General Fund	<u>(1,123,860)</u>
Internal balances, net		<u>\$ (8,425,023)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2019 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Parks & Recreation	\$ 223,513
General Fund	EMS Fund	\$ 1,838,456
General Fund	Coal & Mineral Severance	\$ 105,000
General Fund	Cemetery Fund	\$ 3,516
General Fund	Waterpark	\$ 2,995,745
General Fund	Fuel Center Fund	\$ 2,575
General Fund	Tourism & Travel	\$ 30,547
Fuel Center Fund	General Fund	\$ 12,207
Fuel Center Fund	Cemetery	\$ 524
Fuel Center Fund	Parks & Recreation	\$ 912
Fuel Center Fund	EMS Fund	\$ 8,058
Sanitation Department	Wastewater Department	\$ 498,000
Gas Department	Water Department	\$ 3,333
Gas Department	Wastewater Department	\$ 3,333

The City's interfund balances are anticipated to be repaid over a period of time. Some of the interfund balances will not be repaid within one year of the date of these financial statements. The City is unable to identify which balances will not be repaid in the next fiscal year. The interfund balances will be repaid as resources become available.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**5. CAPITAL ASSETS**

A summary of changes in the City's capital assets during the year ended June 30, 2019 is as follows:

	<b>June 30, 2018</b>	<b>Additions/ Transfers</b>	<b>Disposals/ Transfers</b>	<b>June 30, 2019</b>
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Land	\$ 2,177,838	\$ 6,791	\$ -	\$ 2,184,629
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>409,133</u>	<u>24,314</u>	<u>16,259</u>	<u>417,188</u>
Totals	<u>2,598,039</u>	<u>31,105</u>	<u>16,259</u>	<u>2,612,885</u>
Capital assets that are depreciated:				
Infrastructure	36,149,685	251,897	-	36,401,582
Building and improvements	18,263,568	-	-	18,263,568
Vehicles	5,395,108	137,183	393,370	5,138,921
Equipment	2,430,703	117,741	-	2,548,444
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>64,512,940</u>	<u>506,821</u>	<u>393,370</u>	<u>64,626,391</u>
Total capital assets	<u>67,110,979</u>	<u>537,926</u>	<u>409,629</u>	<u>67,239,276</u>
Accumulated depreciation:				
Infrastructure	22,035,204	1,082,645	-	23,117,849
Buildings and improvements	3,793,903	516,890	-	4,310,793
Vehicles	3,833,364	324,656	363,470	3,794,550
Equipment	1,993,305	159,398	-	2,152,703
Office equipment	990,941	9,458	-	1,000,399
Land improvements	<u>972,943</u>	<u>56,635</u>	<u>-</u>	<u>1,029,578</u>
Totals	<u>33,619,660</u>	<u>2,149,682</u>	<u>363,470</u>	<u>35,405,872</u>
<b>Capital Assets, Net</b>	<u>\$ 33,491,319</u>	<u>\$ (1,611,756)</u>	<u>\$ (46,159)</u>	<u>\$ 31,833,404</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**5. CAPITAL ASSETS (CONTINUED)**

	June 30, 2018	Additions/ Transfers	Disposals/ Transfers	June 30, 2019
<b>Business-type Activities</b>				
Capital assets not depreciated:				
Land	\$ 904,934	\$ -	\$ -	\$ 904,934
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>115,092</u>	<u>48,271</u>	<u>-</u>	<u>163,363</u>
Totals	<u>1,167,048</u>	<u>48,271</u>	<u>-</u>	<u>1,215,319</u>
Capital assets that are depreciated:				
Utility plant and dist. system	88,634,113	100,326	-	88,734,439
Building and improvements	49,268,958	-	-	49,268,958
Vehicles	2,934,750	778,489	347,390	3,365,849
Equipment	2,781,661	12,300	-	2,793,961
Office equipment	882,655	-	-	882,655
Land improvements	<u>114,231</u>	<u>-</u>	<u>-</u>	<u>114,231</u>
Totals	<u>144,616,368</u>	<u>891,115</u>	<u>347,390</u>	<u>145,160,093</u>
Total capital assets	<u>145,783,416</u>	<u>939,386</u>	<u>347,390</u>	<u>146,375,412</u>
Accumulated depreciation:				
Utility plant and dist. system	42,484,220	1,882,777	-	44,366,997
Buildings and improvements	13,313,355	990,856	-	14,304,211
Vehicles	2,115,627	209,140	327,348	1,997,419
Equipment	2,300,420	88,298	-	2,388,718
Office equipment	482,752	12,867	-	495,619
Land improvements	<u>39,602</u>	<u>3,421</u>	<u>-</u>	<u>43,023</u>
Totals	<u>60,735,976</u>	<u>3,187,359</u>	<u>327,348</u>	<u>63,595,987</u>
<b>Capital Assets, Net</b>	<u>\$ 85,047,440</u>	<u>\$ (2,247,973)</u>	<u>\$ (20,042)</u>	<u>\$ 82,779,425</u>

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

**Primary Government**

Governmental Activities

Waterpark	\$ 687,285
Streets	565,896
Public Safety	190,827
General Government	348,123
Emergency Medical Services	145,834
Parks and Recreation	179,810
Fuel Center	28,497
Cemetery	2,784
Travel & Tourism	<u>626</u>
	<u>\$ 2,149,682</u>

Business-Type Activities

Water	\$ 1,463,532
Wastewater	1,080,523
Gas	465,984
Sanitation	<u>177,320</u>
	<u>\$ 3,187,359</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**6. LONG-TERM DEBT**

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2019:

Description	Balance June 30, 2018	Issued	Retired	June 30, 2019	Due within One year
<b>Primary Government</b>					
<b><u>Governmental Activities</u></b>					
<b><i>General Fund</i></b>					
Series 2010 with interest at 2.00% to 3.00%, maturing in fiscal year 2019	\$ 235,000	\$ -	\$ 235,000	\$ -	\$ -
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	4,699,984	-	138,401	4,561,583	279,626
Series 2015A with interest at 3.25% maturing in fiscal year 2054	8,275,000	-	118,500	8,156,500	122,500
Series 2015B with interest at 3.25% maturing in fiscal year 2054	608,518	-	10,500	598,018	11,000
Street sweeper loan with interest at 3.50% maturing in fiscal year 2023	152,166	-	34,500	117,666	35,735
Ambulance loan with interest at 4.15% maturing in fiscal year 2023	121,826	-	22,406	99,420	23,358
<b><i>Waterpark</i></b>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	<u>1,617,588</u>	<u>-</u>	<u>47,634</u>	<u>1,569,954</u>	<u>96,239</u>
<b>Net pension liability</b>	<u>27,226,493</u>	<u>1,648,373</u>	<u>-</u>	<u>28,874,866</u>	<u>-</u>
<b>Net OPEB liability</b>	<u>9,948,087</u>	<u>-</u>	<u>1,458,396</u>	<u>8,489,691</u>	<u>-</u>
<b>Total governmental activities</b>	<b><u>\$ 52,884,662</u></b>	<b><u>\$ 1,648,373</u></b>	<b><u>\$2,065,337</u></b>	<b><u>\$ 52,467,698</u></b>	<b><u>\$ 568,458</u></b>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

Description	Balance June 30, 2018	Issued	Retired	June 30, 2019	Due within One year
<b><u>Business-type Activities</u></b>					
<b>Gas Department</b>					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	\$ 742,586	\$ -	\$ 22,050	\$ 720,536	\$ 44,201
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	27,263	-	1,526	25,737	1,557
Note payable to local bank with interest at 3.79%, maturing in fiscal year 2024	<u>-</u>	<u>37,275</u>	<u>2,275</u>	<u>35,000</u>	<u>6,979</u>
Total Gas Department	<u>\$ 769,849</u>	<u>\$ 37,275</u>	<u>\$ 25,851</u>	<u>\$ 781,273</u>	<u>\$ 52,737</u>
<b>Water Department</b>					
Series 2012 GO with interest at 2%, maturing in fiscal year 2019	\$ 385,000	\$ -	\$ 385,000	\$ -	\$ -
Original issue premium	12,599	-	12,599	-	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	8,384,500	-	163,000	8,221,500	167,000
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,658,000	-	90,500	4,567,500	93,000
Cumberland Valley Note with interest at 2.5% maturing in fiscal year 2022	320,745	-	88,915	231,830	91,076
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	<u>4,035,000</u>	<u>-</u>	<u>160,000</u>	<u>3,875,000</u>	<u>165,000</u>
Total Water Department	<u>\$ 17,795,844</u>	<u>\$ -</u>	<u>\$ 900,014</u>	<u>\$ 16,895,830</u>	<u>\$ 516,076</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

Description	June 30, 2018	Issued	Retired	June 30, 2019	Due within One year
<b><u>Business-type Activities, continued</u></b>					
<b>Wastewater Department</b>					
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 1,260,175	\$ -	\$ 36,750	\$ 1,223,425	\$ 74,934
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	6,446,050	-	386,475	6,059,575	390,351
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	308,902	-	17,283	291,619	17,629
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>1,750,427</u>	<u>-</u>	<u>80,368</u>	<u>1,670,059</u>	<u>82,860</u>
<b>Total Wastewater Department</b>	<b><u>\$ 9,765,554</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 520,876</u></b>	<b><u>\$ 9,244,678</u></b>	<b><u>\$ 565,774</u></b>
<b>Sanitation Department</b>					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	\$ 105,203	\$ -	\$ 37,263	\$ 67,940	\$ 38,389
Lease agreement with local bank with interest at 3.5% maturing in fiscal year 2023	241,694	-	51,504	190,190	53,335
Note payable to local bank with interest at 3.85%, maturing in fiscal year 2024	-	147,722	13,519	134,203	27,813
Lease agreement with local bank with interest at 4.4%, maturing in fiscal year 2021	<u>-</u>	<u>236,647</u>	<u>-</u>	<u>236,647</u>	<u>-</u>
<b>Total Sanitation Department</b>	<b><u>346,897</u></b>	<b><u>384,369</u></b>	<b><u>102,286</u></b>	<b><u>628,980</u></b>	<b><u>119,537</u></b>
<b>Net pension liability</b>	<b><u>7,899,063</u></b>	<b><u>293,945</u></b>	<b><u>-</u></b>	<b><u>8,193,008</u></b>	<b><u>-</u></b>
<b>Net OPEB liability</b>	<b><u>2,645,289</u></b>	<b><u>-</u></b>	<b><u>256,779</u></b>	<b><u>2,388,510</u></b>	<b><u>-</u></b>
<b>Total Business-type activities</b>	<b><u>\$ 39,222,496</u></b>	<b><u>\$ 715,589</u></b>	<b><u>\$ 1,805,806</u></b>	<b><u>\$ 38,132,279</u></b>	<b><u>\$ 1,254,124</u></b>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

The City entered into the following capital lease agreements in the sanitation fund:

- 2016 garbage truck acquired in March of 2016. The net book value of the truck as of June 30, 2019 is \$92,700.
- 2018 garbage truck acquired in December of 2017. The net book value of the truck as of June 30, 2019 is \$212,923.
- 2019 garbage truck acquired in December 2018. The net book value of the truck as of June 30, 2019 is \$225,940.

The City entered into a capital lease agreement in the sanitation fund for a 2016 garbage truck acquired in March of 2016. The net book value of the garbage truck as of June 30, 2019 is \$92,700.

The City entered into a capital lease

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	\$ 4,561,583
Waterpark	1,569,954
Gas department	720,536
Wastewater department	<u>1,223,425</u>
 Total	 <u>\$ 8,075,498</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 (excluding the net pension liability and the net OPEB liability are as follows):

**Governmental Activities**

Year ended	Principal	Interest	Total
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	582,518	440,152	1,022,670
2025-2029	3,267,648	1,851,664	5,119,312
2030-2034	2,727,274	1,198,757	3,926,031
2035-2039	1,208,500	907,265	2,115,765
2040-2044	1,438,500	692,700	2,131,200
2045-2049	1,686,517	437,721	2,124,238
2050-2054	<u>1,837,001</u>	<u>153,043</u>	<u>1,990,044</u>
	<u>\$ 15,103,141</u>	<u>\$ 7,646,972</u>	<u>\$ 22,750,113</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

**Business-type Activities**

Year ended	Principal	Interest	Total
2020	\$ 1,254,124	\$ 653,779	\$ 1,907,903
2021	1,509,254	617,649	2,126,903
2022	1,227,186	586,380	1,813,566
2023	1,172,247	593,538	1,765,785
2024	1,154,519	532,370	1,686,889
2025-2029	6,088,566	2,244,475	8,333,041
2030-2034	6,273,089	1,456,677	7,729,766
2035-2039	2,637,276	830,622	3,467,898
2040-2044	2,178,500	571,997	2,750,497
2045-2049	2,450,500	329,237	2,779,737
2050-2052	<u>1,605,500</u>	<u>68,616</u>	<u>1,674,116</u>
	<u>\$ 27,550,761</u>	<u>\$ 8,485,340</u>	<u>\$ 36,036,101</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, 2019 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2019, 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, 2019, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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, 2019**

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**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, 2019, participating employers contributed 21.48% of each employee's wages for non-hazardous job classifications and 35.34% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Plan members contributed 16.22% and 24.87% to the pension trust for non-hazardous and hazardous job classifications, respectively. 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, are 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, 2019, the City contributed \$1,352,005, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$1,020,927 to the CERS pension fund and \$331,078 to the CERS insurance fund. The City contributed \$1,812,412, or 100% of the required contribution for hazardous job classifications, which was allocated \$1,275,458 to the CERS pension fund and \$536,954 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, 2019**

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**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, 2019, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net</b>		
<b>Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 37,067,874</u>	<u>\$ 15,215,713</u>	<u>\$ 21,852,161</u>

The net pension liability was measured as of June 30, 2018, 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, 2018 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.251%	.904%

The proportionate share at June 30, 2018 relative to June 30, 2017 decreased for non-hazardous by .002% and hazardous by .004%.

For the year ended June 30, 2019, the City recognized pension expense of \$6,139,149. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 2,235,357	\$ 222,726
Changes of assumptions	3,813,106	-
Net difference between projected and actual earnings on Plan investments	-	428,927
Changes in proportion and differences between City contributions and proportionate share of contributions	291,958	315,248
City contributions subsequent to the measurement date	<u>2,268,290</u>	<u>-</u>
<b>Total</b>	<u><b>\$ 8,608,711</b></u>	<u><b>\$ 966,901</b></u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**7. RETIREMENT PLAN (CONTINUED)**

The \$2,268,290 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2020	\$ 3,937,234
2021	\$ 1,917,861
2022	\$ (301,230)
2023	\$ (180,345)

*Actuarial Assumptions* – The total pension liability in the June 30, 2018 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 total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

**7. RETIREMENT PLAN (CONTINUED)**

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 Expected Real Rate of Return
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*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 25-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%	\$ 19,155,017	5.25%	\$ 27,379,326
Current discount rate	6.25%	\$ 15,215,713	6.25%	\$ 21,852,161
1% increase	7.25%	\$ 11,915,281	7.25%	\$ 17,282,923

*Payable to the Pension Plan* – At June 30, 2019, the City reported a payable of \$365,800 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019. The payable includes both the pension and insurance contribution allocation.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**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, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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.

For the year ended June 30, 2019, the City contributed \$331,078, or 100% of the required contribution for non-hazardous job classifications, and \$536,954, 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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the City reported a liability for its proportionate share of the net OPEB liability as follows:

<b>Total Net</b>		
<b>Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 10,878,201</u>	<u>\$ 4,435,842</u>	<u>\$ 6,442,359</u>

The net OPEB liability was measured as of June 30, 2018, 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, 2018 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.251%	.904%

The proportionate share at June 30, 2018 relative to June 30, 2017 decreased for non-hazardous by .002% and hazardous by .004%.

For the year ended June 30, 2019, the City recognized OPEB expense of \$1,619,259. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ -	\$ 1,236,891
Changes of assumptions	2,862,885	27,871
Net difference between projected and actual earnings on Plan investments	-	918,004
Changes in proportion and differences between City contributions and proportionate share of contributions	-	119,679
City contributions subsequent to the measurement date	<u>904,828</u>	<u>-</u>
Total	<u>\$ 3,767,713</u>	<u>\$ 2,302,445</u>

The \$904,828 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, 2020. This includes adjustments of \$71,559 for the nonhazardous implicit subsidy and (\$25,651) 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,**

2020	\$ 374,719
2021	\$ 374,719
2022	\$ 19,139
2023	\$ (123,584)
2024	\$ (51,981)
2025	\$ (32,572)

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2018 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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post – 65: Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>US Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	<b>6.09%</b>

*Discount Rate* – The discount rate used to measure the total net OPEB liability was 5.85% and 5.97% 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 25-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 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. 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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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

*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	4.85%	\$ 5,761,442		4.97%	\$ 8,955,204	
Current discount rate	5.85%	\$ 4,435,842		5.97%	\$ 6,442,359	
1% increase	6.85%	\$ 3,306,665		6.97%	\$ 4,430,771	

*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		\$ 3,302,525			\$ 4,387,562	
Current trend rate		\$ 4,435,842			\$ 6,442,359	
1% increase		\$ 5,771,687			\$ 8,987,324	

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

**9. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2019 were levied in September 2018 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**10. TRANSFER OF FUNDS**

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General operations	\$ 1,333,500
EMS	General	General operations	\$ 25,000
Tourism	General	General operations	\$ 12,000
Gas	General	General operations	\$ 2,100,000
Gas	General	General operations	\$ 600,000
Sanitation	Waterpark	General operations	\$ 371,343
Water	General	General operations	\$ 1,400,000
Water	General	General operations	\$ 90,609

**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, 2019 are summarized below:

**Governmental Activities**

2020	\$ 241,013
2021	241,013
2022	186,731
2023	<u>35,240</u>
Total	<u>\$ 703,997</u>

**Business-type Activities**

2020	\$ 183,794
2021	183,794
2022	155,951
2023	61,409
2024	<u>16,105</u>
Total	<u>\$ 601,053</u>

Lease expense for June 30, 2019 was \$234,859 and \$185,085 for the governmental activities and the business-type activities, respectively.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019**

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**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, 2019 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.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Taxes	\$ 1,421,000	\$ 1,421,000	\$ 1,460,414	\$ 39,414
Licenses and permits	5,977,500	5,977,500	7,607,151	1,629,651
Fines and forfeits	18,500	18,500	85,485	66,985
Intergovernmental	708,000	708,000	619,134	(88,866)
Interest income	32,500	32,500	56,211	23,711
Other revenues	<u>1,039,200</u>	<u>1,039,200</u>	<u>1,057,163</u>	<u>17,963</u>
<b>TOTAL REVENUES</b>	<u>9,196,700</u>	<u>9,196,700</u>	<u>10,885,558</u>	<u>1,688,858</u>
<b>EXPENDITURES</b>				
General administration	4,579,855	4,579,855	3,695,953	(883,902)
Public safety	7,519,550	7,519,550	7,145,043	(374,507)
Public services	219,000	219,000	228,379	9,379
Streets	1,215,510	1,215,510	1,142,745	(72,765)
Downtown revitalization	140,375	140,375	143,875	3,500
Intergovernmental programs	455,130	455,130	353,064	(102,066)
Capital outlay (Note 1)	-	-	201,874	201,874
Debt service - principal	559,307	559,307	559,307	-
Debt service - interest	<u>716,018</u>	<u>716,018</u>	<u>441,945</u>	<u>(274,073)</u>
<b>TOTAL EXPENDITURES</b>	<u>15,404,745</u>	<u>15,404,745</u>	<u>13,912,185</u>	<u>(1,492,560)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	8,705	8,705
Transfer from other funds	4,227,609	4,227,609	4,227,612	3
Transfer to other funds	<u>(1,333,500)</u>	<u>(1,333,500)</u>	<u>(1,333,500)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>2,894,109</u>	<u>2,894,109</u>	<u>2,902,817</u>	<u>8,708</u>
<b>NET CHANGE IN FUND BALANCES</b>	(3,313,936)	(3,313,936)	(123,810)	3,190,126
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>3,313,936</u>	<u>3,313,936</u>	<u>3,269,442</u>	<u>(44,494)</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,145,632</u>	<u>\$ 3,145,632</u>

Note 1: Capital outlay expenditures were budgeted with their respective function.

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**EMS FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 3,700,000	\$ 3,700,000	\$ 2,901,406	\$ (798,594)
Intergovernmental revenues	1,374,000	1,374,000	1,362,974	(11,026)
Interest income	1,500	1,500	1,147	(353)
Other revenues	<u>40,000</u>	<u>40,000</u>	<u>41,911</u>	<u>1,911</u>
<b>TOTAL REVENUES</b>	<u>5,115,500</u>	<u>5,115,500</u>	<u>4,307,438</u>	<u>(808,062)</u>
<b>EXPENDITURES</b>				
Emergency medical services	5,334,900	5,334,900	5,042,133	(292,767)
Capital outlay	-	-	26,665	26,665
Debt service - principal	22,406	22,406	22,406	-
Debt service - interest	<u>5,594</u>	<u>5,594</u>	<u>4,708</u>	<u>(886)</u>
<b>TOTAL EXPENDITURES</b>	<u>5,362,900</u>	<u>5,362,900</u>	<u>5,095,912</u>	<u>(266,988)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	505	505
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(25,000)</u>	<u>(25,000)</u>	<u>(24,495)</u>	<u>505</u>
<b>NET CHANGE IN FUND BALANCES</b>	(272,400)	(272,400)	(812,969)	(540,569)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>272,400</u>	<u>272,400</u>	<u>(346,503)</u>	<u>(618,903)</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,159,472)</u>	<u>\$ (1,159,472)</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**WATERPARK FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,157,500	\$ 1,157,500	\$ 1,100,942	\$ (56,558)
Interest income	750	750	706	(44)
Other revenues	<u>23,000</u>	<u>23,000</u>	<u>31,049</u>	<u>8,049</u>
<b>TOTAL REVENUES</b>	<u>1,181,250</u>	<u>1,181,250</u>	<u>1,132,697</u>	<u>(48,553)</u>
<b>EXPENDITURES</b>				
Waterpark	1,396,700	1,396,700	1,317,690	(79,010)
Debt service - principal	47,633	47,633	47,633	-
Debt service - interest	<u>61,260</u>	<u>61,260</u>	<u>61,260</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,505,593</u>	<u>1,505,593</u>	<u>1,426,583</u>	<u>(79,010)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of assets	-	-	-	-
Transfer from other funds	<u>324,343</u>	<u>324,343</u>	<u>371,343</u>	<u>47,000</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>324,343</u>	<u>324,343</u>	<u>371,343</u>	<u>47,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	77,457	77,457
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>(4,147,204)</u>	<u>(4,147,204)</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,069,747)</u>	<u>\$ (4,069,747)</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**FUEL CENTER FUND**  
**for the year ended June 30, 2019**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 972,500	\$ 1,747,500	\$ 1,492,686	\$ (254,814)
Interest income	<u>600</u>	<u>600</u>	<u>307</u>	<u>(293)</u>
<b>TOTAL REVENUES</b>	<u>973,100</u>	<u>1,748,100</u>	<u>1,492,993</u>	<u>(255,107)</u>
<b>EXPENDITURES</b>				
Fuel center	973,100	1,748,100	1,547,229	(200,871)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>973,100</u>	<u>1,748,100</u>	<u>1,547,229</u>	<u>(200,871)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(54,236)	(54,236)
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>160,885</u>	<u>160,885</u>	<u>160,885</u>	<u>-</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 160,885</u>	<u>\$ 160,885</u>	<u>\$ 106,649</u>	<u>\$ (54,236)</u>

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

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	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
City's proportion of the net pension liability	0.257%	0.257%	0.266%	0.247%	0.253%	0.251%
City's proportionate share of the net pension liability (asset)	\$ 9,448,091	\$ 8,349,736	\$ 11,416,098	\$ 12,144,563	\$ 14,800,439	\$ 15,215,713
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	176.32%	142.44%	180.82%	207.27%	240.64%	243.63%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%	53.54%

**Notes:**

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

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

The City's covered payroll reported above is payroll for the 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 Six Fiscal Years**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
City's proportion of the net pension liability	0.923%	0.923%	0.922%	0.882%	0.908%	0.904%
City's proportionate share of the net pension liability (asset)	\$ 12,345,466	\$ 11,098,449	\$ 14,149,168	\$ 15,135,833	\$ 20,325,117	\$ 21,852,161
City's covered employee payroll	\$ 4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	261.29%	237.06%	293.42%	332.17%	413.78%	435.06%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	53.95%	49.78%	49.26%

**Notes:**

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

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

The City's covered payroll reported above is payroll for the 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 Seven Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 675,388	\$ 805,078	\$ 804,991	\$ 727,713	\$ 863,880	\$ 904,347	\$ 1,020,927
Contributions relative to contractually required employer contribution	<u>675,388</u>	<u>805,078</u>	<u>804,991</u>	<u>727,713</u>	<u>863,880</u>	<u>904,347</u>	<u>1,020,927</u>
Contribution deficiency (excess)	<u>\$ -</u>						
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251
Employer contributions as a percentage of covered-employee payroll	12.60%	13.73%	12.75%	12.42%	14.05%	14.48%	16.22%

Notes:

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

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 Seven Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 948,760	\$ 1,016,016	\$ 1,002,090	\$ 924,463	\$ 1,066,417	\$ 1,115,070	\$ 1,275,458
Contributions relative to contractually required employer contribution	<u>948,760</u>	<u>1,016,016</u>	<u>1,002,090</u>	<u>924,463</u>	<u>1,066,417</u>	<u>1,115,070</u>	<u>1,275,458</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499
Employer contributions as a percentage of covered-employee payroll	20.08%	21.70%	20.78%	20.29%	21.71%	22.20%	24.87%

**Notes:**

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

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 Three Fiscal Years**

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	<b>2017</b>	<b>2018</b>	<b>2019</b>
City's proportion of the net OPEB liability	0.247%	0.253%	0.251%
City's proportionate share of the net OPEB liability (asset)	\$ 3,987,166	\$ 5,083,271	\$ 4,435,842
City's covered employee payroll	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	68.05%	82.65%	71.02%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%

**Notes:**

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

The measurement date of the net 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 Three Fiscal Years**

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	<b>2017</b>	<b>2018</b>	<b>2019</b>
City's proportion of the net OPEB liability	0.882%	0.908%	0.904%
City's proportionate share of the net OPEB liability (asset)	\$ 4,487,562	\$ 7,510,105	\$ 6,442,359
City's covered employee payroll	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	98.49%	152.89%	128.26%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%

**Notes:**

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

The measurement date of the net 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 Seven Fiscal Years**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Contractually required employer contribution	\$ 370,875	\$ 301,758	\$ 310,632	\$ 271,867	\$ 292,914	\$ 293,538	\$ 331,078
Contributions relative to contractually required employer contribution	<u>370,875</u>	<u>301,758</u>	<u>310,632</u>	<u>271,867</u>	<u>292,914</u>	<u>293,538</u>	<u>331,078</u>
Contribution deficiency (excess)	<u>\$ -</u>						
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251
Employer contributions as a percentage of covered-employee payroll	6.92%	5.15%	4.92%	4.64%	4.76%	4.70%	5.26%

**Notes:**

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

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 Seven Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019
Contractually required employer contribution	\$ 826,035	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954
Contributions relative to contractually required employer contribution	<u>826,035</u>	<u>650,120</u>	<u>656,458</u>	<u>579,045</u>	<u>459,281</u>	<u>469,636</u>	<u>536,954</u>
Contribution deficiency (excess)	<u>\$ -</u>						
City's covered employee payroll	\$ 4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499
Employer contributions as a percentage of covered-employee payroll	17.48%	13.89%	13.61%	12.71%	9.35%	9.35%	10.47%

**Notes:**

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

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, 2019**

	<b>Municipal Aid Projects Fund</b>	<b>Parks &amp; Recreation Fund</b>	<b>Coal &amp; Mineral Severance Fund</b>	<b>Cemetery Fund</b>	<b>Travel &amp; Tourism Fund</b>	<b>2019 Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 166,074	\$ 172,026	\$ 4,937	\$ 69,573	\$ 140,404	\$ 553,014
Receivables, net	26,239	-	11,513	15,750	29,766	83,268
Inventories	-	996	-	14,800	-	15,796
Due from other fund	-	-	-	-	373	373
Prepaid expenses	-	631	-	64	41	736
<b>Total assets</b>	<b><u>\$ 192,313</u></b>	<b><u>\$ 173,653</u></b>	<b><u>\$ 16,450</u></b>	<b><u>\$ 100,187</u></b>	<b><u>\$ 170,584</u></b>	<b><u>\$ 653,187</u></b>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Accounts payable	\$ -	\$ 5,428	\$ -	\$ 1,400	\$ 2,526	\$ 9,354
Due to other fund	-	224,425	105,000	4,040	30,564	364,029
Other current liabilities	-	34,484	-	2,733	53,136	90,353
<b>Total liabilities</b>	<b>-</b>	<b>264,337</b>	<b>105,000</b>	<b>8,173</b>	<b>86,226</b>	<b>463,736</b>
<b>Fund balance</b>	<b><u>192,313</u></b>	<b><u>(90,684)</u></b>	<b><u>(88,550)</u></b>	<b><u>92,014</u></b>	<b><u>84,358</u></b>	<b><u>189,451</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 192,313</u></b>	<b><u>\$ 173,653</u></b>	<b><u>\$ 16,450</u></b>	<b><u>\$ 100,187</u></b>	<b><u>\$ 170,584</u></b>	<b><u>\$ 653,187</u></b>

**CITY OF SOMERSET, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2019**

	<b>Municipal Aid Projects Fund</b>	<b>Parks &amp; Recreation Fund</b>	<b>Coal &amp; Mineral Severance Fund</b>	<b>Cemetery Fund</b>	<b>Travel &amp; Tourism Fund</b>	<b>2019 Total</b>
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 214,384	\$ 214,384
Charges for services	-	175,800	-	24,016	-	199,816
Intergovernmental revenues	221,660	-	31,117	-	-	252,777
Interest income	1,529	804	66	583	-	2,982
Other revenues	-	68,146	-	1,106	398	69,650
	<u>-</u>	<u>68,146</u>	<u>-</u>	<u>1,106</u>	<u>398</u>	<u>69,650</u>
Total revenues	<u>223,189</u>	<u>244,750</u>	<u>31,183</u>	<u>25,705</u>	<u>214,782</u>	<u>739,609</u>
<b>EXPENDITURES</b>						
Current						
Streets	114,550	-	-	-	-	114,550
Parks and recreation	-	1,302,904	-	-	-	1,302,904
Cemetery	-	-	-	115,592	-	115,592
Travel and tourism	-	-	-	-	243,074	243,074
Capital outlay	251,897	23,091	-	6,791	27,608	309,387
Debt Service	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>366,447</u>	<u>1,325,995</u>	<u>-</u>	<u>122,383</u>	<u>270,682</u>	<u>2,085,507</u>
Excess revenues over (under) expenditures before other sources (uses)	(143,258)	(1,081,245)	31,183	(96,678)	(55,900)	(1,345,898)
<b>Other financing sources</b>						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers from (to) other funds	-	1,333,500	-	-	(12,000)	1,321,500
	<u>-</u>	<u>1,333,500</u>	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>1,321,500</u>
Total other financing sources	-	1,333,500	-	-	(12,000)	1,321,500
<b>Excess revenues and other sources over (under) expenditures</b>	(143,258)	252,255	31,183	(96,678)	(67,900)	(24,398)
Fund balances, beginning 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>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 192,313</u>	<u>\$ (90,684)</u>	<u>\$ (88,550)</u>	<u>\$ 92,014</u>	<u>\$ 84,358</u>	<u>\$ 189,451</u>

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**GAS DEPARTMENT**  
**for the year ended June 30, 2019**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 15,600,000	\$ 8,329,380	\$ (7,270,620)
Transportation/surcharges	1,576,000	978,396	(597,604)
Other operating revenues	351,200	358,624	7,424
<b>TOTAL OPERATING REVENUES</b>	<b>17,527,200</b>	<b>9,666,400</b>	<b>(7,860,800)</b>
<b>OPERATING EXPENSES</b>			
Gas purchases, net of refunds	10,547,100	4,083,321	(6,463,779)
Maintenance	666,000	656,213	(9,787)
Personnel services (Note 1)	1,557,500	1,772,213	214,713
Supplies	88,500	59,376	(29,124)
Utilities	60,000	60,497	497
Insurance	100,000	83,506	(16,494)
Engineering	290,000	124,991	(165,009)
Severance tax	21,000	28,698	7,698
Contract compression	280,000	285,981	5,981
Management fees	320,000	319,999	(1)
Other	335,600	208,759	(126,841)
Depreciation	520,000	465,984	(54,016)
<b>TOTAL OPERATING EXPENSES</b>	<b>14,785,700</b>	<b>8,149,538</b>	<b>(6,636,162)</b>
<b>OPERATING INCOME</b>	<b>2,741,500</b>	<b>1,516,862</b>	<b>(1,224,638)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	9,000	14,759	5,759
Interest expense	(50,500)	(28,546)	21,954
Gain (loss) on asset disposal	-	4,322	4,322
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(41,500)</b>	<b>(9,465)</b>	<b>32,035</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>2,700,000</b>	<b>1,507,397</b>	<b>(1,192,603)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(2,700,000)	(2,700,000)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(2,700,000)</b>	<b>(2,700,000)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ -</b>	<b>\$ (1,192,603)</b>	<b>\$ (1,192,603)</b>

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, 2019**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 8,707,500	\$ 7,315,528	\$ (1,391,972)
Transportation/surcharges	65,500	120,400	54,900
Other operating revenues	5,000	139,149	134,149
<b>TOTAL OPERATING REVENUES</b>	<b>8,778,000</b>	<b>7,575,077</b>	<b>(1,202,923)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	760,000	417,030	(342,970)
Personnel services (Note 1)	1,727,000	1,910,656	183,656
Supplies	533,500	422,559	(110,941)
Utilities	850,000	752,077	(97,923)
Insurance	95,000	109,442	14,442
Engineering	35,000	32,695	(2,305)
Management fees	320,000	320,000	-
Other	135,700	93,804	(41,896)
Amortization	9,022	9,022	-
Depreciation	1,500,000	1,463,532	(36,468)
<b>TOTAL OPERATING EXPENSES</b>	<b>5,965,222</b>	<b>5,530,817</b>	<b>(434,405)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,812,778</b>	<b>2,044,260</b>	<b>(768,518)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	19,500	31,674	12,174
Interest expense	(454,254)	(440,138)	14,116
Gain (loss) on asset disposal	-	(4,097)	(4,097)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(434,754)</b>	<b>(412,561)</b>	<b>22,193</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>2,378,024</b>	<b>1,631,699</b>	<b>(746,325)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(1,490,609)	(1,490,609)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(1,490,609)</b>	<b>(1,490,609)</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION (Note 2)</b>	<b>\$ 887,415</b>	<b>\$ 141,090</b>	<b>\$ (746,325)</b>

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.

Note 2: The City budgeted for principal debt payments totaling \$887,415. Since principal debt payments are not included in expense, this resulted in a budgeted increase in net position.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WASTEWATER DEPARTMENT**  
**for the year ended June 30, 2019**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 3,462,500	\$ 2,688,181	\$ (774,319)
Transportation/surcharges	27,500	26,252	(1,248)
Other operating revenues	3,233,800	137,980	(3,095,820)
<b>TOTAL OPERATING REVENUES</b>	<b>6,723,800</b>	<b>2,852,413</b>	<b>(3,871,387)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	553,500	430,530	(122,970)
Personnel services (Note 1)	1,389,200	1,062,574	(326,626)
Supplies	20,750	17,943	(2,807)
Utilities	405,000	388,366	(16,634)
Insurance	50,000	52,140	2,140
Engineering	40,000	37,252	(2,748)
Treatment	90,000	84,263	(5,737)
Other	112,720	90,910	(21,810)
Depreciation	1,250,000	1,080,523	(169,477)
<b>TOTAL OPERATING EXPENSES</b>	<b>3,911,170</b>	<b>3,244,501</b>	<b>(666,669)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,812,630</b>	<b>(392,088)</b>	<b>(3,204,718)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	35,500	74,948	39,448
Interest expense	(187,985)	(185,178)	2,807
Gain (loss) on asset disposal	-	(2,244)	(2,244)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(152,485)</b>	<b>(112,474)</b>	<b>40,011</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>2,660,145</b>	<b>(504,562)</b>	<b>(3,164,707)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	-	-	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION (Note 2)</b>	<b>\$ 2,660,145</b>	<b>\$ (504,562)</b>	<b>\$ (3,164,707)</b>

Note 1: Adjustments to account for the changes in the net pension liability and the net OPEB liability resulted in a decrease 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.

Note 2: The City budgeted for principal debt payments totaling \$555,875. The City also budgeted for a sewer expansion project that was not done in the current year. These factors resulted in the budgeted increase in net position, since these are not recorded as expenses.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**SANITATION DEPARTMENT**  
**for the year ended June 30, 2019**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 4,160,000	\$ 3,931,723	\$ (228,277)
Other operating revenues	49,343	61,689	12,346
<b>TOTAL OPERATING REVENUES</b>	<b>4,209,343</b>	<b>3,993,412</b>	<b>(215,931)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	259,500	232,713	(26,787)
Personnel services (Note 1)	1,323,000	1,760,648	437,648
Supplies	232,000	191,284	(40,716)
Utilities	12,000	13,278	1,278
Insurance	45,000	48,557	3,557
Landfill	1,310,000	1,086,281	(223,719)
Management fees	320,000	320,000	-
Other	107,000	47,838	(59,162)
Depreciation	155,000	177,320	22,320
<b>TOTAL OPERATING EXPENSES</b>	<b>3,763,500</b>	<b>3,877,919</b>	<b>114,419</b>
<b>OPERATING INCOME</b>	<b>445,843</b>	<b>115,493</b>	<b>(330,350)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	5,500	18,026	12,526
Interest expense	(40,000)	(9,241)	30,759
Gain (loss) on asset disposal	-	134,479	134,479
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(34,500)</b>	<b>143,264</b>	<b>177,764</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>411,343</b>	<b>258,757</b>	<b>(152,586)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(371,343)	(371,343)	-
<b>TOTAL OPERATING TRANSFERS</b>	<b>(371,343)</b>	<b>(371,343)</b>	<b>-</b>
<b>INCREASE IN NET POSITION (Note 2)</b>	<b>\$ 40,000</b>	<b>\$ (112,586)</b>	<b>\$ (152,586)</b>

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.

Note 2: The City budgeted \$40,000 for the purchase of a new vehicle. Since capital assets are not recorded in expense, this resulted in a budgeted increase in net position.



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

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, 2019, 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 October 24, 2019.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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  
October 24, 2019