

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



**FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020, 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, 2020, 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, 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  
November 19, 2020

## **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, 2020. Please read it in conjunction with the City's financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total assets and deferred outflows of resources were \$149.25 million
- Total bank balances totaled \$15.2 million
- Total long-term debt decreased by \$.35 million
- General fund reported a fund balance of \$1.34 million
- During the year, the City's business-type activities generated net revenues of \$2.81 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$42.1 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$10.8 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	
	2020	2019	2020	2019	2020	2019
Current & Other Assets	\$ (3.05)	\$ (.51)	\$ 25.20	\$ 24.97	\$ 22.15	\$ 24.46
Capital Assets	33.02	31.83	81.19	82.78	114.21	114.61
Deferred Outflows	<u>10.18</u>	<u>10.02</u>	<u>2.71</u>	<u>2.35</u>	<u>12.89</u>	<u>12.37</u>
Total Assets and Deferred Outflows	<u>40.15</u>	<u>41.34</u>	<u>109.10</u>	<u>110.10</u>	<u>149.25</u>	<u>151.44</u>
Other Liabilities	2.75	2.02	2.62	2.34	5.37	4.36
Long Term Liabilities	56.05	51.90	36.92	36.88	92.97	88.78
Deferred Inflows	<u>3.11</u>	<u>2.46</u>	<u>1.23</u>	<u>.80</u>	<u>4.34</u>	<u>3.26</u>
Total Liabilities/Deferred Inflows	<u>61.91</u>	<u>56.38</u>	<u>40.77</u>	<u>40.02</u>	<u>102.68</u>	<u>96.40</u>
Net investment in capital assets	17.48	16.73	54.47	55.29	71.95	72.02
Restricted	1.13	1.16	.74	.66	1.87	1.82
Unrestricted	<u>(40.37)</u>	<u>(32.93)</u>	<u>13.12</u>	<u>14.13</u>	<u>(27.25)</u>	<u>(18.80)</u>
Total Net Position	<u>\$ (21.76)</u>	<u>\$ (15.04)</u>	<u>\$ 68.33</u>	<u>\$ 70.08</u>	<u>\$ 46.57</u>	<u>\$ 55.04</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 \$8.45 million during fiscal year 2020. The major contributing factor for this decrease is due to increases in GASB Pension and OPEB expenses and increased expenses.

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 \$41.34 million at June 30, 2019 to 40.15 million at June 30, 2020. The major contributing factor for this decrease is due to increases in GASB Pension and OPEB expenses and increased expenses.



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

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

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2020	2019	2020	2019	2020	2019
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 4.58	\$ 5.69	\$ 23.44	\$ 24.09	\$ 28.02	\$ 29.78
Federal & State Grants	3.69	2.23	.26	-	3.95	2.23
General Revenues						
Property Taxes	1.69	1.46	-	-	1.69	1.46
Other Taxes and License Fees	7.78	7.82	-	-	7.78	7.82
Other General Revenues	<u>1.28</u>	<u>1.35</u>	<u>.14</u>	<u>.14</u>	<u>1.42</u>	<u>1.49</u>
Total Revenues	<u>\$ 19.02</u>	<u>\$ 18.55</u>	<u>\$ 23.84</u>	<u>\$ 24.23</u>	<u>\$ 42.86</u>	<u>\$ 42.78</u>
<b>Program Expenses</b>						
General Government	4.66	4.44	-	-	4.66	4.44
Public Safety	11.12	9.26	-	-	11.12	9.26
Public Services	.16	.23	-	-	.16	.23
Streets	1.79	1.90	-	-	1.79	1.90
Parks and Recreation	1.47	1.59	-	-	1.47	1.59
Emergency Medical Services	6.91	6.50	-	-	6.91	6.50
Cemetery	.13	.13	-	-	.13	.13
Fuel Center	.85	1.58	-	-	.85	1.58
Waterpark	1.89	2.04	-	-	1.89	2.04
Travel & Tourism	.21	.24	-	-	.21	.24
Intergovernmental Programs	.40	.35	-	-	.40	.35
Downtown Revitalization	.20	.14	-	-	.20	.14
Debt Service – Interest	.51	.53	-	-	.51	.53
Gas	-	-	7.28	8.18	7.28	8.18
Water	-	-	6.29	5.97	6.29	5.97
Wastewater	-	-	3.49	3.43	3.49	3.43
Sanitation	-	-	<u>3.96</u>	<u>3.89</u>	<u>3.96</u>	<u>3.89</u>
Total Expense	<u>\$ 30.30</u>	<u>\$ 28.93</u>	<u>\$ 21.02</u>	<u>\$ 21.47</u>	<u>\$ 51.32</u>	<u>\$ 50.40</u>
Gain (Loss) on disposal of capital assets	-	(.04)	(.01)	.13	(.01)	.09
Excess (Deficiency) before Transfer	(11.28)	(10.42)	2.81	2.89	(8.47)	(7.53)
Transfer	<u>4.56</u>	<u>4.56</u>	<u>(4.56)</u>	<u>(4.56)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(6.72)	(5.86)	(1.75)	(1.67)	(8.47)	(7.53)
Net Position, beginning	<u>(15.04)</u>	<u>(9.18)</u>	<u>70.08</u>	<u>71.75</u>	<u>55.04</u>	<u>62.57</u>
Net Position, ending	<u>\$(21.76)</u>	<u>\$(15.04)</u>	<u>\$ 68.33</u>	<u>\$ 70.08</u>	<u>\$ 46.57</u>	<u>\$ 55.04</u>

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

The City's total revenues increased by \$.08 million. The total cost of all programs and services increased by \$.92 million. The major contributing factor for this increase is due to increases in GASB Pension and OPEB expenses and additional personnel/payroll in public safety. Our analysis below separately considers the operations of governmental and business-type activities.

**Governmental Activities**

The cost of all governmental activities this year was \$30.30 million compared to \$28.94 million last year. Overall, the City's governmental program fees for services decreased in 2020 from \$5.69 million to \$4.58 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.47 million in taxes and license fees, \$3.69 million in grants and entitlements, \$1.28 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 \$1.02 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 increases in GASB Pension and OPEB expenses and additional personnel/payroll in public safety 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Emergency Medical Services	\$ 6.91	\$ 6.50	\$ 2.30	\$ 2.23
Police and Fire Department	11.12	9.26	9.72	8.88
Streets	1.79	1.90	1.45	1.64
Waterpark	1.89	2.04	1.15	.94
Parks and recreation	1.47	1.59	1.33	1.41
All Others	7.12	7.65	6.08	5.91
Totals	<u>\$ 30.30</u>	<u>\$ 28.94</u>	<u>\$ 22.03</u>	<u>\$ 21.01</u>

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

### **Business-Type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by \$.39 million (\$24.23 million in 2019 compared to \$23.84 million in 2020) and expenses decreased by \$.45 million (\$21.47 million in 2019 compared to \$21.02 million in 2020). The factors driving these results include:

The major decrease in revenue for this fiscal year is due to a mild winter again and a significant drop in the transportation of natural gas due to one of the producers shipping gas in a different pipeline. The major contributing factor for the decrease in expense is due to natural gas purchases being down due to the mild winter again.

- 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 \$1.34 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 \$1.19 million less than the \$13.34 million budgeted, while actual expenditures were \$4.77 million less than the expected \$22.72 million budgeted.

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

#### **Capital Assets**

At the end of 2020, the City had \$114.21 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water, gas and sewer lines. (See Table 4 below).

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

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 3.36	\$ 2.18	\$ 1.00	\$ .90	\$ 4.36	\$ 3.08
Right of Way and Easements	.01	.01	.14	.14	.15	.15
Construction in Progress	1.55	.42	.59	.16	2.14	.58
Infrastructure	12.63	13.28	-	-	12.63	13.28
Utility Plant and Distribution System	-	-	42.52	44.37	42.52	44.37
Buildings and Improvements	13.79	13.95	34.35	34.96	48.14	48.91
Vehicles	1.15	1.34	1.41	1.37	2.56	2.71
Equipment	.25	.40	.63	0.41	.88	.81
Office Equipment	.01	.01	.48	0.39	0.49	0.40
Land Improvements	<u>.27</u>	<u>.24</u>	<u>.07</u>	<u>.07</u>	<u>0.34</u>	<u>0.31</u>
Total	<u>\$ 33.02</u>	<u>\$ 31.83</u>	<u>\$ 81.19</u>	<u>\$ 82.77</u>	<u>\$ 114.21</u>	<u>\$ 114.60</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The Lake Cumberland Farmers Market was completed and opened in downtown. The City started a complete renovation of its EMS facility. Purchased property to combine the Sanitation Department in to one facility and several other projects all around the City including streets, sidewalks, beautification and more.

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, 2020, the City's Governmental Activities long term debt had increased by \$.43 million and the Business-Type Activities long term debt decreased by \$.78 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 \$3.83 million and \$1.19 million respectively. We are now required to include our OPEB Liability, which increased in the Governmental Activities by \$.05 million and decreased in the Business-Type activities by \$.15 million. Table 5 below contains the details.

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

	Governmental Activities		Business-type Activities		Total Primary Activities	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Long-Term Debt	\$ 15.53	\$ 15.10	\$ 26.77	\$ 27.55	\$ 42.30	\$ 42.65
Net Pension Liability	32.70	28.87	9.38	8.19	42.08	37.06
Net OPEB Liability	<u>8.54</u>	<u>8.49</u>	<u>2.24</u>	<u>2.39</u>	<u>10.78</u>	<u>10.88</u>
Totals	<u>\$ 56.77</u>	<u>\$ 52.46</u>	<u>\$ 38.39</u>	<u>\$ 38.13</u>	<u>\$ 95.16</u>	<u>\$ 90.59</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 single 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 Chief Financial Officer or Accountant at Somerset City Hall, 306 E. Mt. Vernon Street, Somerset, Kentucky 42501.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2020**

	<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	\$ 3,461,502	\$ 3,878,785	\$ 7,340,287
Certificates of deposit	1,008,277	4,660,042	5,668,319
Investments	-	501,168	501,168
Receivables, net	3,741,101	1,981,382	5,722,483
Note receivable - current	-	20,946	20,946
Accrued interest receivable	4,058	1,908	5,966
Inventories	88,380	736,714	825,094
Prepaid expenses	231,993	93,415	325,408
Internal balances, net	<u>(12,533,042)</u>	<u>12,533,042</u>	<u>-</u>
Total current assets	<u>(3,997,731)</u>	<u>24,407,402</u>	<u>20,409,671</u>
Noncurrent assets			
Restricted cash and cash equivalents	947,661	737,360	1,685,021
Excess cost over market value of assets acquired, net	-	51,193	51,193
Capital assets			
Nondepreciable capital assets	4,913,885	1,719,431	6,633,316
Depreciable capital assets, net	<u>28,102,627</u>	<u>79,469,613</u>	<u>107,572,240</u>
Total noncurrent assets	<u>33,964,173</u>	<u>81,977,597</u>	<u>115,941,770</u>
Total assets	<u>29,966,442</u>	<u>106,384,999</u>	<u>136,351,441</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	6,878,793	1,845,121	8,723,914
Deferred outflows - OPEB	<u>3,305,042</u>	<u>868,568</u>	<u>4,173,610</u>
Total deferred outflows of resources	<u>10,183,835</u>	<u>2,713,689</u>	<u>12,897,524</u>
Total assets and deferred outflows of resources	<u>\$ 40,150,277</u>	<u>\$ 109,098,688</u>	<u>\$ 149,248,965</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 716,029	\$ 714,170	\$ 1,430,199
Accrued interest payable	171,103	66,607	237,710
Other current liabilities	1,146,321	358,500	1,504,821
Unearned revenue	-	2,500	2,500
Current portion of long-term debt	<u>715,995</u>	<u>1,473,454</u>	<u>2,189,449</u>
Total current liabilities	<u>2,749,448</u>	<u>2,615,231</u>	<u>5,364,679</u>
Noncurrent liabilities			
Notes payable	967,253	6,057,450	7,024,703
Bonds payable	13,851,435	19,240,375	33,091,810
Net pension liability	32,698,505	9,383,932	42,082,437
Net OPEB liability	<u>8,536,344</u>	<u>2,243,819</u>	<u>10,780,163</u>
Total noncurrent liabilities	<u>56,053,537</u>	<u>36,925,576</u>	<u>92,979,113</u>
Total liabilities	<u>58,802,985</u>	<u>39,540,807</u>	<u>98,343,792</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	694,978	355,441	1,050,419
Deferred inflows - OPEB	<u>2,410,223</u>	<u>875,624</u>	<u>3,285,847</u>
Total deferred inflows of resources	<u>3,105,201</u>	<u>1,231,065</u>	<u>4,336,266</u>
<b>NET POSITION</b>			
Net investment in capital assets	17,481,829	54,468,958	71,950,787
Restricted for			
Debt service	754,970	737,360	1,492,330
Other purposes	379,648	-	379,648
Unrestricted	<u>(40,374,356)</u>	<u>13,120,498</u>	<u>(27,253,858)</u>
Total net position	<u>(21,757,909)</u>	<u>68,326,816</u>	<u>46,568,907</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 40,150,277</u>	<u>\$ 109,098,688</u>	<u>\$ 149,248,965</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, 2020**

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	\$ 4,663,364	\$ -	\$ 295,500	\$ -	\$ (4,367,864)	\$ -	\$ (4,367,864)
Public safety	11,115,661	-	1,394,446	-	(9,721,215)	-	(9,721,215)
Public services	164,338	-	-	-	(164,338)	-	(164,338)
Streets	1,785,694	-	250,431	83,988	(1,451,275)	-	(1,451,275)
Parks and recreation	1,468,280	134,166	-	-	(1,334,114)	-	(1,334,114)
Emergency medical services	6,908,312	2,937,937	1,666,678	-	(2,303,697)	-	(2,303,697)
Cemetery	130,166	24,565	-	-	(105,601)	-	(105,601)
Waterpark	1,889,051	740,234	-	-	(1,148,817)	-	(1,148,817)
Fuel center	854,109	747,077	-	-	(107,032)	-	(107,032)
Travel and tourism	211,876	-	-	-	(211,876)	-	(211,876)
Intergovernmental programs	402,776	-	-	-	(402,776)	-	(402,776)
Downtown revitalization	202,500	-	-	-	(202,500)	-	(202,500)
Interest on long-term debt	508,656	-	-	-	(508,656)	-	(508,656)
Total governmental activities	<u>30,304,783</u>	<u>4,583,979</u>	<u>3,607,055</u>	<u>83,988</u>	<u>(22,029,761)</u>	<u>-</u>	<u>(22,029,761)</u>
<b>Business-type activities</b>							
Gas department	7,280,113	9,077,733	-	80,638	-	1,878,258	1,878,258
Water department	6,290,898	7,586,233	-	63,245	-	1,358,580	1,358,580
Wastewater department	3,488,579	2,934,314	-	115,000	-	(439,265)	(439,265)
Sanitation department	3,954,752	3,841,550	-	-	-	(113,202)	(113,202)
Total business-type activities	<u>21,014,342</u>	<u>23,439,830</u>	<u>-</u>	<u>258,883</u>	<u>-</u>	<u>2,684,371</u>	<u>2,684,371</u>
<b>Total primary government</b>	<u>\$ 51,319,125</u>	<u>\$ 28,023,809</u>	<u>\$ 3,607,055</u>	<u>\$ 342,871</u>	<u>(22,029,761)</u>	<u>2,684,371</u>	<u>(19,345,390)</u>
<b>General revenues</b>							
Taxes:							
Property taxes							
					1,488,939	-	1,488,939
Transient room tax							
					197,910	-	197,910
License fees:							
Franchise							
					956,725	-	956,725
Business							
					295,124	-	295,124
Insurance premiums							
					1,887,932	-	1,887,932
Occupational							
					3,818,001	-	3,818,001
ABC							
					770,485	-	770,485
Permits:							
Building							
					43,263	-	43,263
Planning and Zoning							
					2,412	-	2,412
Stormwater							
					2,355	-	2,355
Investment earnings							
					67,329	143,352	210,681
Miscellaneous							
					1,216,407	-	1,216,407
Total general revenues							
					10,746,882	143,352	10,890,234
Gain (loss) on disposal of capital assets							
					-	(13,060)	(13,060)
Transfers in (out)							
					4,563,933	(4,563,933)	-
<b>Change in Net Position</b>							
					(6,718,946)	(1,749,270)	(8,468,216)
Net position-beginning							
					(15,038,963)	70,076,089	55,037,126
<b>NET POSITION-ENDING</b>							
					\$ (21,757,909)	\$ 68,326,819	\$ 46,568,910

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

**CITY OF SOMERSET, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2020**

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,698,353	\$ 180,528	\$ 78,335	\$ 56,186	\$ 395,761	\$ 4,409,163
Certificates of deposit	1,008,277	-	-	-	-	1,008,277
Receivables, net	2,638,808	1,004,488	15,922	21,257	60,626	3,741,101
Interest receivable	4,058	-	-	-	-	4,058
Inventories	12,506	-	27,725	32,374	15,775	88,380
Prepaid expenses	172,160	55,376	3,207	625	625	231,993
Due from other funds	<u>6,449,157</u>	<u>-</u>	<u>-</u>	<u>12,300</u>	<u>31</u>	<u>6,461,488</u>
Total assets	<u>\$ 13,983,319</u>	<u>\$ 1,240,392</u>	<u>\$ 125,189</u>	<u>\$ 122,742</u>	<u>\$ 472,818</u>	<u>\$ 15,944,460</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Accounts payable	\$ 392,641	\$ 19,054	\$ 133,267	\$ 31,196	\$ 139,871	\$ 716,029
Due to other funds	11,429,203	3,133,137	4,226,412	50,343	155,435	18,994,530
Other current liabilities	<u>821,284</u>	<u>222,354</u>	<u>50,738</u>	<u>3,214</u>	<u>48,731</u>	<u>1,146,321</u>
Total liabilities	<u>12,643,128</u>	<u>3,374,545</u>	<u>4,410,417</u>	<u>84,753</u>	<u>344,037</u>	<u>20,856,880</u>
Fund balance						
Nonspendable	184,666	55,376	30,932	32,999	16,400	320,373
Restricted	892,315	-	-	-	242,303	1,134,618
Committed	-	-	-	-	-	-
Assigned	1,163,737	-	-	-	-	1,163,737
Unassigned	<u>(900,527)</u>	<u>(2,189,529)</u>	<u>(4,316,160)</u>	<u>4,990</u>	<u>(129,922)</u>	<u>(7,531,148)</u>
Total fund balance	<u>1,340,191</u>	<u>(2,134,153)</u>	<u>(4,285,228)</u>	<u>37,989</u>	<u>128,781</u>	<u>(4,912,420)</u>
Total liabilities and fund balance	<u>\$ 13,983,319</u>	<u>\$ 1,240,392</u>	<u>\$ 125,189</u>	<u>\$ 122,742</u>	<u>\$ 472,818</u>	<u>\$ 15,944,460</u>

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

Fund balances reported above	\$ (4,912,420)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	33,016,512
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(171,103)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	7,078,634
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>(56,769,532)</u>
Net position of governmental activities	<u>\$ (21,757,909)</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, 2020**

	<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	\$ 1,488,939	\$ -	\$ -	\$ -	\$ 197,910	\$ 1,686,849
Licenses and permits	7,776,297	-	-	-	-	7,776,297
Fines and forfeits	29,942	-	-	-	-	29,942
Charges for services	-	2,937,937	740,234	747,077	158,731	4,583,979
Intergovernmental	1,689,946	1,666,678	-	-	250,431	3,607,055
Interest income	63,478	934	759	164	1,994	67,329
Other revenues	<u>1,103,382</u>	<u>54,668</u>	<u>22,435</u>	<u>-</u>	<u>5,980</u>	<u>1,186,465</u>
Total revenues	<u>12,151,984</u>	<u>4,660,217</u>	<u>763,428</u>	<u>747,241</u>	<u>615,046</u>	<u>18,937,916</u>
<b>EXPENDITURES</b>						
Current:						
General administration	4,101,666	-	-	-	-	4,101,666
Public safety	8,555,187	-	-	-	-	8,555,187
Public services	164,338	-	-	-	-	164,338
Streets	1,024,576	-	-	-	110,502	1,135,078
Parks and recreation	-	-	-	-	1,177,395	1,177,395
Emergency medical services	-	5,335,006	-	-	-	5,335,006
Cemetery	-	-	-	-	117,307	117,307
Waterpark	-	-	1,168,770	-	-	1,168,770
Fuel center	-	-	-	815,901	-	815,901
Travel and tourism	-	-	-	-	194,720	194,720
Downtown revitalization	202,500	-	-	-	-	202,500
Intergovernmental programs	390,288	-	-	-	-	390,288
Capital outlay	2,621,193	272,778	39,789	-	250,792	3,184,552
Debt service	<u>898,304</u>	<u>27,114</u>	<u>155,350</u>	<u>-</u>	<u>-</u>	<u>1,080,768</u>
Total expenditures	<u>17,958,052</u>	<u>5,634,898</u>	<u>1,363,909</u>	<u>815,901</u>	<u>1,850,716</u>	<u>27,623,476</u>
Excess (deficiency) of revenues over expenditures	<u>(5,806,068)</u>	<u>(974,681)</u>	<u>(600,481)</u>	<u>(68,660)</u>	<u>(1,235,670)</u>	<u>(8,685,560)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from issuance of debt	1,000,000	-	-	-	-	1,000,000
Transfers in (out)	<u>3,000,627</u>	<u>-</u>	<u>385,000</u>	<u>-</u>	<u>1,175,000</u>	<u>4,560,627</u>
Total other financing sources and uses	<u>4,000,627</u>	<u>-</u>	<u>385,000</u>	<u>-</u>	<u>1,175,000</u>	<u>5,560,627</u>
<b>Net change in fund balances</b>	<b>(1,805,441)</b>	<b>(974,681)</b>	<b>(215,481)</b>	<b>(68,660)</b>	<b>(60,670)</b>	<b>(3,124,933)</b>
Fund balance-beginning	<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>
<b>Fund balance-ending</b>	<b>\$ 1,340,191</b>	<b>\$ (2,134,153)</b>	<b>\$ (4,285,228)</b>	<b>\$ 37,989</b>	<b>\$ 128,781</b>	<b>\$ (4,912,420)</b>

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (3,124,933)
add: capital outlay expenditures capitalized	3,184,552
add: debt service expenditures	1,080,768
add: donated roads	83,988
add: capital asset transfers from business-type activities	3,306
less: proceeds from issuance of debt	(1,000,000)
less: depreciation on governmental activities assets	(2,088,729)
less: change in net pension liability	(3,935,453)
less: change in net OPEB liability	(413,789)
less: interest on long term debt	<u>(508,656)</u>

Change in net position Governmental Activities \$ (6,718,946)

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2020**

	Business-type Activities				Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 1,127,467	\$ 1,971,286	\$ 304,432	\$ 475,600	\$ 3,878,785
Certificates of deposit	-	1,259,830	2,800,133	600,079	4,660,042
Investments	250,584	250,584	-	-	501,168
Receivables, net	513,613	697,275	335,109	435,385	1,981,382
Note receivable - current	20,946	-	-	-	20,946
Accrued interest receivable	27	255	1,371	255	1,908
Inventories	299,729	380,154	50,147	6,684	736,714
Prepaid expenses	29,609	26,430	21,948	15,428	93,415
Due from other funds	4,236,408	6,584,863	-	1,965,568	12,786,839
Total current assets	<u>6,478,383</u>	<u>11,170,677</u>	<u>3,513,140</u>	<u>3,498,999</u>	<u>24,661,199</u>
Noncurrent assets					
Restricted cash and cash equivalents	-	611,360	126,000	-	737,360
Excess cost over market value of assets acquired, net	-	51,193	-	-	51,193
Capital assets					
Nondepreciable capital assets	349,921	921,835	372,675	75,000	1,719,431
Depreciable capital assets	27,014,231	69,429,689	45,980,531	3,622,632	146,047,083
Less accumulated depreciation	<u>(20,302,247)</u>	<u>(23,098,327)</u>	<u>(21,251,628)</u>	<u>(1,925,268)</u>	<u>(66,577,470)</u>
Total noncurrent assets	<u>7,061,905</u>	<u>47,915,750</u>	<u>25,227,578</u>	<u>1,772,364</u>	<u>81,977,597</u>
Total assets	<u>13,540,288</u>	<u>59,086,427</u>	<u>28,740,718</u>	<u>5,271,363</u>	<u>106,638,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows - pension	542,611	551,366	347,929	403,215	1,845,121
Deferred outflows - OPEB	<u>255,427</u>	<u>259,549</u>	<u>163,783</u>	<u>189,809</u>	<u>868,568</u>
Total deferred outflows of resources	<u>798,038</u>	<u>810,915</u>	<u>511,712</u>	<u>593,024</u>	<u>2,713,689</u>
Total assets and deferred outflows of resources	<u>\$ 14,338,326</u>	<u>\$ 59,897,342</u>	<u>\$ 29,252,430</u>	<u>\$ 5,864,387</u>	<u>\$ 109,352,485</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	\$ 372,584	\$ 155,763	\$ 61,937	\$ 123,886	\$ 714,170
Due to other funds	6,315	1,698	241,944	3,840	253,797
Accrued interest payable	4,393	47,628	13,702	884	66,607
Other current liabilities	121,944	106,113	64,001	66,442	358,500
Unearned revenue	-	-	-	2,500	2,500
Current portion of long-term debt	<u>82,475</u>	<u>543,417</u>	<u>575,087</u>	<u>272,475</u>	<u>1,473,454</u>
Total current liabilities	<u>587,711</u>	<u>854,619</u>	<u>956,671</u>	<u>470,027</u>	<u>2,869,028</u>
Noncurrent liabilities					
Notes payable	110,107	3,626,311	1,759,444	561,588	6,057,450
Bonds payable	630,446	12,263,000	6,346,929	-	19,240,375
Net pension liability	2,759,613	2,804,145	1,769,498	2,050,676	9,383,932
Net OPEB liability	<u>659,859</u>	<u>670,507</u>	<u>423,110</u>	<u>490,343</u>	<u>2,243,819</u>
Total noncurrent liabilities	<u>4,160,025</u>	<u>19,363,963</u>	<u>10,298,981</u>	<u>3,102,607</u>	<u>36,925,576</u>
Total liabilities	<u>4,747,736</u>	<u>20,218,582</u>	<u>11,255,652</u>	<u>3,572,634</u>	<u>39,794,604</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows - pension	104,528	106,214	67,025	77,674	355,441
Deferred inflows - OPEB	<u>257,502</u>	<u>261,657</u>	<u>165,113</u>	<u>191,352</u>	<u>875,624</u>
Total deferred inflows of resources	<u>362,030</u>	<u>367,871</u>	<u>232,138</u>	<u>269,026</u>	<u>1,231,065</u>
<b>NET POSITION</b>					
Net investment in capital assets	6,238,877	30,871,662	16,420,118	938,301	54,468,958
Restricted for debt service	-	611,360	126,000	-	737,360
Unrestricted	<u>2,989,683</u>	<u>7,827,867</u>	<u>1,218,522</u>	<u>1,084,426</u>	<u>13,120,498</u>
Total net position	<u>9,228,560</u>	<u>39,310,889</u>	<u>17,764,640</u>	<u>2,022,727</u>	<u>68,326,816</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,338,326</u>	<u>\$ 59,897,342</u>	<u>\$ 29,252,430</u>	<u>\$ 5,864,387</u>	<u>\$ 109,352,485</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**for the year ended June 30, 2020**

	<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	\$ 7,833,240	\$ 7,361,187	\$ 2,717,473	\$ 3,794,030	\$ 21,705,930
Transportation/surcharges	908,121	146,174	16,807	-	1,071,102
Other operating revenues	<u>336,372</u>	<u>78,872</u>	<u>200,034</u>	<u>47,520</u>	<u>662,798</u>
Total operating revenues	<u>9,077,733</u>	<u>7,586,233</u>	<u>2,934,314</u>	<u>3,841,550</u>	<u>23,439,830</u>
<b>Operating expenses</b>					
Gas purchases, net of refunds	3,062,411	-	-	-	3,062,411
Operating expenses	3,290,345	3,926,529	1,900,291	3,469,381	12,586,546
Maintenance	433,983	440,539	343,905	196,252	1,414,679
Depreciation	462,855	1,479,640	1,066,724	270,992	3,280,211
Amortization	-	9,022	-	-	9,022
Total operating expenses	<u>7,249,594</u>	<u>5,855,730</u>	<u>3,310,920</u>	<u>3,936,625</u>	<u>20,352,869</u>
Operating income (loss)	<u>1,828,139</u>	<u>1,730,503</u>	<u>(376,606)</u>	<u>(95,075)</u>	<u>3,086,961</u>
<b>Nonoperating revenues (expenses)</b>					
Gain (loss) on disposal of capital assets	-	-	-	(13,060)	(13,060)
Interest and investment revenue	12,612	32,501	78,734	19,505	143,352
Interest expense	<u>(30,522)</u>	<u>(435,168)</u>	<u>(177,659)</u>	<u>(18,127)</u>	<u>(661,476)</u>
Total nonoperating revenues (expenses)	<u>(17,910)</u>	<u>(402,667)</u>	<u>(98,925)</u>	<u>(11,682)</u>	<u>(531,184)</u>
Income (loss) before capital contributions and transfers	1,810,229	1,327,836	(475,531)	(106,757)	2,555,777
Capital contributed - Grants	80,638	63,245	115,000	-	258,883
Transfers in (out)	<u>(2,702,670)</u>	<u>(1,469,463)</u>	<u>(6,800)</u>	<u>(385,000)</u>	<u>(4,563,933)</u>
<b>Change in net position</b>	(811,803)	(78,382)	(367,331)	(491,757)	(1,749,273)
Total net position-beginning	<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>
<b>TOTAL NET POSITION-ENDING</b>	<u>\$ 9,228,560</u>	<u>\$ 39,310,889</u>	<u>\$ 17,764,640</u>	<u>\$ 2,022,727</u>	<u>\$ 68,326,816</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, 2020**

	<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	\$ 9,105,979	\$ 7,604,756	\$ 2,733,683	\$ 3,808,834	\$ 23,253,252
Cash payments to suppliers for goods and services	(4,435,207)	(2,343,427)	(1,034,769)	(2,171,956)	(9,985,359)
Cash payments to employees	(1,687,093)	(1,717,554)	(1,141,528)	(1,298,375)	(5,844,550)
Other operating revenues	336,372	78,872	200,034	47,520	662,798
<b>Net cash provided by operating activities</b>	<u>3,320,051</u>	<u>3,622,647</u>	<u>757,420</u>	<u>386,023</u>	<u>8,086,141</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts (payments) on interfund loans	(1,294,101)	(1,501,246)	(957,262)	(355,410)	(4,108,019)
Transfers (to) from other funds	(2,700,003)	(1,475,630)	-	(385,000)	(4,560,633)
<b>Net cash provided (used) by non-capital financing activities</b>	<u>(3,994,104)</u>	<u>(2,976,876)</u>	<u>(957,262)</u>	<u>(740,410)</u>	<u>(8,668,652)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on bonds and notes	(72,261)	(525,895)	(563,218)	(356,184)	(1,517,558)
Interest paid on bonds and notes	(30,605)	(523,565)	(178,527)	(18,276)	(750,973)
Proceeds from issuance of debt	144,980	31,830	-	-	176,810
Acquisition and construction of capital assets	(335,107)	(438,780)	(270,159)	(455,080)	(1,499,126)
Capital contributed - Grants	80,638	63,245	115,000	-	258,883
Proceeds from sale of assets	-	-	-	336,670	336,670
<b>Net cash (used) by capital and related financing activities</b>	<u>(212,355)</u>	<u>(1,393,165)</u>	<u>(896,904)</u>	<u>(492,870)</u>	<u>(2,995,294)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from certificates of deposit	-	-	500,000	-	500,000
Purchase of investments	(250,584)	(250,584)	-	-	(501,168)
Interest income	12,926	32,877	81,626	19,798	147,227
<b>Net cash provided by investing activities</b>	<u>(237,658)</u>	<u>(217,707)</u>	<u>581,626</u>	<u>19,798</u>	<u>146,059</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,124,066)	(965,101)	(515,120)	(827,459)	(3,431,746)
<b>Balances-beginning of the year</b>	2,251,533	3,547,747	945,552	1,303,059	8,047,891
<b>BALANCES-END OF THE YEAR</b>	<u>\$ 1,127,467</u>	<u>\$ 2,582,646</u>	<u>\$ 430,432</u>	<u>\$ 475,600</u>	<u>\$ 4,616,145</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss):	\$ 1,828,139	\$ 1,730,503	\$ (376,606)	\$ (95,075)	\$ 3,086,961
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	462,855	1,479,640	1,066,724	270,992	3,280,211
Amortization expense	-	9,022	-	-	9,022
Net pension liability activity	442,067	313,775	89,726	201,872	1,047,440
Net OPEB liability activity	62,093	19,873	(22,016)	5,728	65,678
Change in assets and liabilities:					
Receivables, net	112,567	97,395	(597)	12,304	221,669
Note receivable	252,051	-	-	-	252,051
Inventory	71,007	(30,720)	7,419	(6,684)	41,022
Prepaid expenses	(28,523)	(25,171)	(20,956)	(5,445)	(80,095)
Accounts payable	97,204	18,674	2,653	(16,379)	102,152
Other liabilities	20,591	9,656	11,073	16,210	57,530
Unearned revenue	-	-	-	2,500	2,500
<b>Net cash provided (used) by operating activities</b>	<u>\$ 3,320,051</u>	<u>\$ 3,622,647</u>	<u>\$ 757,420</u>	<u>\$ 386,023</u>	<u>\$ 8,086,141</u>
<b>Supplemental disclosure of cash flow information:</b>					
Noncash capital and related financing activities:					
Capital assets acquired by capital lease	\$ -	\$ -	\$ -	\$ 561,267	\$ 561,267
Payables for capital items, net	\$ (17,893)	\$ (13,003)	\$ 13,370	\$ -	\$ (17,526)

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020**

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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, 2020**

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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, 2020**

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**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	\$ 12,506	\$ -	\$ 27,725	\$ 32,374	\$ 15,775	\$ 88,380
Prepays	172,160	55,376	3,207	625	625	231,993
Restricted						
Debt service	892,315	-	-	-	-	892,315
Road repair	-	-	-	-	99,672	99,672
Tourism	-	-	-	-	87,285	87,285
Parks	-	-	-	-	55,346	55,346
Assigned						
Debt service	1,163,737	-	-	-	-	1,163,737
Unassigned	<u>(900,527)</u>	<u>(2,189,529)</u>	<u>(4,316,160)</u>	<u>4,990</u>	<u>(129,922)</u>	<u>(7,531,148)</u>
Total	<u>\$ 1,340,191</u>	<u>\$(2,134,153)</u>	<u>\$(4,285,228)</u>	<u>\$ 37,989</u>	<u>\$ 128,781</u>	<u>\$(4,912,420)</u>

As of June 30, 2020, the following nonmajor funds reported a deficit in fund balance:

Parks & Recreation Fund	\$ (9,114)
Coal & Mineral Severance Fund	\$(50,615)

**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, 2020**

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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. Investments include shares in the Kentucky League of Cities Investment Pool Plus Program which are measured at net asset value. 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, 2020**

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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, 2020**

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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 November 19, 2020, 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, 2020, have not been evaluated by the City.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020 are as follows:

Carrying amount	\$ 14,693,627
Bank balance	\$ 15,294,970
FDIC Insurance	\$ 2,576,803
Bank Deposit Guaranty Bond	\$ 801,237
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	\$ 11,916,930
Uninsured and uncollateralized	\$ -

Investments

As of June 30, 2020, the City had a total of \$501,168 in investments. Investments consisted of shares purchased in the Kentucky League of Cities Investment Pool Plus Program (KLCIP) measured at net asset value. Shares held in the KLCIP are invested in short and intermediate-term U.S. Treasury Bonds.

**3. ACCOUNTS AND NOTES RECEIVABLE**

Accounts Receivable

Account receivables at June 30, 2020 for all funds of the City are as follows:

	<b>Accounts</b>	<b>Taxes</b>	<b>Licenses &amp; Permits</b>	<b>Intergov.</b>	<b>Other</b>	<b>Allowance</b>	<b>Total</b>
General Fund	\$ 95,424	\$ 29,795	\$ 1,690,629	\$ 748,661	\$ 167,958	\$ (93,659)	\$ 2,638,808
EMS Fund	2,597,985	-	-	236,546	62,487	(1,892,530)	1,004,488
Waterpark	15,922	-	-	-	-	-	15,922
Fuel Center	-	-	-	-	21,257	-	21,257
Other Gov.	31,162	-	-	44,359	-	(14,895)	60,626
Gas	390,856	-	-	22,667	100,090	-	513,613
Water	685,925	-	-	11,350	-	-	697,275
Wastewater	328,139	-	-	6,370	600	-	335,109
Sanitation	<u>435,385</u>	-	-	-	-	-	<u>435,385</u>
<b>Totals</b>	<b><u>\$ 4,580,798</u></b>	<b><u>\$ 29,795</u></b>	<b><u>\$ 1,690,629</u></b>	<b><u>\$ 1,069,953</u></b>	<b><u>\$ 352,392</u></b>	<b><u>\$ (2,001,084)</u></b>	<b><u>\$ 5,722,483</u></b>

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:

<b>Year ended</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	<u>\$ 20,946</u>	<u>\$ 53</u>	<u>\$ 20,999</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Wastewater Department	\$ 239,520
Fuel Center Fund	Gas Department	2,474
Fuel Center Fund	Water Department	1,698
Fuel Center Fund	Wastewater Department	2,424
Gas Department	General Fund	(4,236,331)
Gas Department	Parks and Recreation	(78)
Water Department	General Fund	(5,277,181)
Water Department	Waterpark	(1,300,000)
Sanitation Department	Fuel Center	(50,343)
Sanitation Department	General Fund	<u>(1,915,225)</u>
Internal balances, net		<u>\$ (12,533,042)</u>

Interfund receivables and payables within governmental activities and business-type activities not eliminated for purposes of government-wide financial statements as of June 30, 2020 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Parks & Recreation	\$ 32,384
General Fund	EMS Fund	\$ 3,128,908
General Fund	Coal & Mineral Severance	\$ 70,000
General Fund	Cemetery Fund	\$ 28,377
General Fund	Waterpark	\$ 2,926,037
General Fund	Tourism & Travel	\$ 23,934
Fuel Center Fund	General Fund	\$ 437
Fuel Center Fund	Cemetery	\$ 277
Fuel Center Fund	Parks & Recreation	\$ 364
Fuel Center Fund	Waterpark	\$ 375
Fuel Center Fund	Travel and Tourism	\$ 22
Fuel Center Fund	EMS Fund	\$ 4,229

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, 2020**

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**5. CAPITAL ASSETS**

A summary of changes in the City's capital assets during the year ended June 30, 2020, is as follows:

	June 30, 2019	Additions/ Transfers	Disposals/ Transfers	June 30, 2020
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Land	\$ 2,184,629	\$ 1,172,312	\$ -	\$ 3,356,941
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>417,188</u>	<u>1,128,688</u>	<u>-</u>	<u>1,545,876</u>
Totals	<u>2,612,885</u>	<u>2,301,000</u>	<u>-</u>	<u>4,913,885</u>
Capital assets that are depreciated:				
Infrastructure	36,401,582	434,313	-	36,835,895
Building and improvements	18,263,568	350,000	-	18,613,568
Vehicles	5,138,921	77,403	23,176	5,239,500
Equipment	2,548,444	10,875	55,500	2,614,819
Office equipment	1,009,686	-	-	1,009,686
Land improvements	<u>1,264,190</u>	<u>94,947</u>	<u>-</u>	<u>1,359,137</u>
Totals	<u>64,626,391</u>	<u>967,538</u>	<u>78,676</u>	<u>65,672,605</u>
Total capital assets	<u>67,239,276</u>	<u>3,268,538</u>	<u>78,676</u>	<u>70,586,490</u>
Accumulated depreciation:				
Infrastructure	23,117,849	1,081,020	-	24,198,869
Buildings and improvements	4,310,793	514,418	-	4,825,211
Vehicles	3,794,550	273,834	20,877	4,089,261
Equipment	2,152,703	155,746	54,500	2,362,949
Office equipment	1,000,399	9,016	-	1,009,415
Land improvements	<u>1,029,578</u>	<u>54,695</u>	<u>-</u>	<u>1,084,273</u>
Totals	<u>35,405,872</u>	<u>2,088,729</u>	<u>75,377</u>	<u>37,569,978</u>
<b>Capital Assets, Net</b>	<u>\$ 31,833,404</u>	<u>\$ 1,179,809</u>	<u>\$ 3,299</u>	<u>\$ 33,016,512</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**5. CAPITAL ASSETS (CONTINUED)**

	June 30, 2019	Additions/ Transfers	Disposals/ Transfers	June 30, 2020
<b>Business-type Activities</b>				
Capital assets not depreciated:				
Land	\$ 904,933	\$ 75,000	\$ -	\$ 979,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>163,363</u>	<u>429,113</u>	<u>-</u>	<u>592,476</u>
Totals	<u>1,215,318</u>	<u>504,113</u>	<u>-</u>	<u>1,719,431</u>
Capital assets that are depreciated:				
Utility plant and dist. system	88,734,439	-	-	88,734,439
Building and improvements	49,268,958	380,080	-	49,649,038
Vehicles	3,365,850	735,448	(602,984)	3,498,314
Equipment	2,793,961	432,492	(90,548)	3,135,905
Office equipment	882,659	32,500	-	915,159
Land improvements	<u>114,231</u>	<u>-</u>	<u>-</u>	<u>114,231</u>
Totals	<u>145,160,094</u>	<u>1,580,520</u>	<u>(693,532)</u>	<u>146,047,082</u>
Total capital assets	<u>146,375,412</u>	<u>2,084,633</u>	<u>(693,532)</u>	<u>147,766,513</u>
Accumulated depreciation:				
Utility plant and dist. system	44,366,997	1,846,186	-	46,231,183
Buildings and improvements	14,304,211	994,127	-	15,298,338
Vehicles	1,997,419	298,801	(208,256)	2,087,964
Equipment	2,388,718	116,906	-	2,505,624
Office equipment	495,619	20,858	(90,473)	426,004
Land improvements	<u>43,023</u>	<u>3,333</u>	<u>-</u>	<u>46,356</u>
Totals	<u>63,595,987</u>	<u>3,280,211</u>	<u>(298,729)</u>	<u>66,577,469</u>
<b>Capital Assets, Net</b>	<u>\$ 82,779,425</u>	<u>\$ (1,195,578)</u>	<u>\$ (394,803)</u>	<u>\$ 81,189,044</u>

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

**Primary Government**

Governmental Activities

Waterpark	\$ 683,264
Streets	567,813
Public Safety	186,730
General Government	342,419
Emergency Medical Services	105,786
Parks and Recreation	167,678
Fuel Center	28,497
Cemetery	2,784
Travel & Tourism	<u>3,758</u>
	<u>\$ 2,088,729</u>

Business-Type Activities

Water	\$ 1,479,640
Wastewater	1,066,724
Gas	462,855
Sanitation	<u>270,992</u>
	<u>\$ 3,280,211</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020:

Description	Balance June 30, 2019	Issued	Retired	June 30, 2020	Due within One year
<b>Primary Government</b>					
<b><u>Governmental Activities</u></b>					
<b>General Fund</b>					
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 4,561,583	\$ -	\$ 279,626	\$ 4,281,957	\$ 288,100
Series 2015A with interest at 3.25% maturing in fiscal year 2054	8,156,500	-	122,500	8,034,000	126,500
Series 2015B with interest at 3.25% maturing in fiscal year 2054	598,018	-	11,000	587,018	11,500
Street sweeper loan with interest at 3.50% maturing in fiscal year 2023	117,666	-	35,735	81,931	37,034
Ambulance loan with interest at 4.15% maturing in fiscal year 2023	99,420	-	23,358	76,062	24,369
Cundiff Square loan with interest at 3.25% maturing in fiscal year 2027	-	1,000,000	-	1,000,000	129,337
<b>Waterpark</b>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	<u>1,569,954</u>	<u>-</u>	<u>96,239</u>	<u>1,473,715</u>	<u>99,155</u>
<b>Net pension liability</b>	<u>28,874,866</u>	<u>3,823,639</u>	<u>-</u>	<u>32,698,505</u>	<u>-</u>
<b>Net OPEB liability</b>	<u>8,489,691</u>	<u>46,653</u>	<u>-</u>	<u>8,536,344</u>	<u>-</u>
<b>Total governmental activities</b>	<b><u>\$ 52,467,698</u></b>	<b><u>\$ 4,870,292</u></b>	<b><u>\$ 568,458</u></b>	<b><u>\$ 56,769,532</u></b>	<b><u>\$ 715,995</u></b>



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

Description	Balance June 30, 2019	Issued	Retired	June 30, 2020	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	\$ 720,536	\$ -	\$ 44,550	\$ 675,986	\$ 45,540
Note payable to City of Ferguson with interest at 2.0% maturing in fiscal year 2034	25,737	-	1,557	24,180	1,588
Note payable to local bank with interest at 3.79%, maturing in fiscal year 2024	35,000	-	35,000	-	-
Cumberland Security loan with interest at 2.85%, maturing in fiscal year 2024	-	100,000	15,871	84,129	24,394
Cumberland Security loan with interest at 2.79%, maturing in fiscal year 2024	-	44,980	6,247	38,733	10,951
	-	44,980	6,247	38,733	10,951
Total Gas Department	\$ 781,273	\$ 144,980	\$ 103,225	\$ 823,028	\$ 82,475
<b>Water Department</b>					
Series 2012A with interest at 2.125% maturing in fiscal year 2052	\$ 8,221,500	\$ -	\$ 167,000	\$ 8,054,500	\$ 171,000
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,567,500	-	93,000	4,474,500	95,000
Cumberland Valley Note with interest at 2.5% maturing in fiscal year 2022	231,830	-	91,162	140,668	93,423
Kentucky Rural Water note with interest at 2.15% to 4.525% maturing in fiscal year 2036	3,875,000	-	165,000	3,710,000	170,000
Citizens National Bank loan with interest at 2.75% maturing in fiscal year 2024	-	27,793	2,753	25,040	6,739
Cumberland Security loan with interest at 3.79% maturing in fiscal year 2024	-	35,000	6,980	28,020	7,255
	-	35,000	6,980	28,020	7,255
Total Water Department	\$ 16,895,830	\$ 62,793	\$ 525,895	\$ 16,432,728	\$ 543,417

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

Description	June 30, 2019	Issued	Retired	June 30, 2020	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	\$ 1,223,425	\$ -	\$ 74,250	\$ 1,149,175	\$ 77,205
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	6,059,575	-	390,351	5,669,224	394,265
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	291,619	-	17,629	273,990	17,984
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>1,670,059</u>	<u>-</u>	<u>80,988</u>	<u>1,589,071</u>	<u>85,633</u>
Total Wastewater Department	<u>\$ 9,244,678</u>	<u>\$ -</u>	<u>\$ 563,218</u>	<u>\$ 8,681,460</u>	<u>\$ 575,087</u>
<b>Sanitation Department</b>					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	\$ 67,940	\$ -	\$ 38,389	\$ 29,551	\$ 29,551
Lease agreement with local bank with interest at 3.5% maturing in fiscal year 2023	190,190	-	53,335	136,855	55,233
Note payable to local bank with interest at 3.85%, maturing in fiscal year 2024	134,203	-	27,813	106,390	28,931
Lease agreement with local bank with interest at 4.4%, paid off in fiscal year 2020	236,647	-	236,647	-	-
Lease agreement with local bank with interest at 2.15%, maturing in fiscal year 2022	-	242,526	-	242,526	-
Lease agreement with local bank with interest at 2.12%, maturing in fiscal year 2022	-	159,981	-	159,981	-
Lease agreement with local bank with interest at 3.99%, maturing in fiscal year 2021	<u>-</u>	<u>158,760</u>	<u>-</u>	<u>158,760</u>	<u>158,760</u>
Total Sanitation Department	<u>\$ 628,980</u>	<u>\$ 561,267</u>	<u>\$ 356,184</u>	<u>\$ 834,063</u>	<u>\$ 272,475</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

Description	June 30, 2019	Issued	Retired	June 30, 2020	Due within One year
<b><u>Business-type Activities, continued</u></b>					
Net pension liability	\$ 8,193,008	\$ 1,190,924	\$ -	\$ 9,383,932	\$ -
Net OPEB liability	<u>2,388,510</u>	<u>-</u>	<u>144,691</u>	<u>2,243,819</u>	<u>-</u>
<b>Total Business-type activities</b>	<b><u>\$ 38,132,280</u></b>	<b><u>\$ 1,959,965</u></b>	<b><u>\$ 1,693,213</u></b>	<b><u>\$ 38,399,030</u></b>	<b><u>\$ 1,473,454</u></b>

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, 2020 is \$64,890.
- 2018 garbage truck acquired in December of 2017. The net book value of the truck as of June 30, 2020 is \$176,107.
- 2020 garbage truck acquired in September 2019. The net book value of the truck as of June 30, 2020 is \$132,300.
- 2020 garbage truck acquired in March 2020. The net book value of the truck as of June 30, 2020 is \$226,358.
- 2021 garbage truck acquired in May 2020. The net book value of the truck as of June 30, 2020 is \$154,648.

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	\$ 4,281,957
Waterpark	1,473,715
Gas department	675,986
Wastewater department	<u>1,149,175</u>
Total	<b><u>\$ 7,580,833</u></b>

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

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
2021	\$ 715,995	\$ 532,575	\$ 1,248,570
2022	739,033	508,388	1,247,421
2023	732,648	482,991	1,215,639
2024	725,036	457,559	1,182,595
2025	750,469	431,359	1,181,828
2026-2030	3,709,422	1,735,165	5,444,587
2031-2035	2,216,561	1,104,030	3,320,591
2036-2040	1,251,500	867,290	2,118,790
2041-2045	1,489,500	645,120	2,134,620
2046-2050	1,711,018	382,511	2,093,529
2051-2055	<u>1,493,501</u>	<u>98,922</u>	<u>1,592,423</u>
	<u>\$ 15,534,683</u>	<u>\$ 7,245,910</u>	<u>\$ 22,780,593</u>

**Business-type Activities**

Year ended	Principal	Interest	Total
2021	\$ 1,473,454	\$ 634,241	\$ 2,107,695
2022	1,672,910	592,916	2,265,826
2023	1,216,801	594,744	1,811,545
2024	1,172,475	532,499	1,704,974
2025	1,157,495	506,022	1,663,518
2026-2030	6,242,745	2,095,885	8,338,630
2031-2035	5,722,899	1,301,619	7,024,517
2036-2040	2,293,500	760,731	3,054,231
2041-2045	2,230,500	525,704	2,756,204
2046-2050	2,508,000	277,164	2,785,164
2051-2055	<u>1,080,500</u>	<u>34,499</u>	<u>1,114,999</u>
	<u>\$ 26,771,279</u>	<u>\$ 7,856,024</u>	<u>\$ 34,627,303</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, 2020 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2020, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**7. RETIREMENT PLAN**

**CERS**

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

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

*Contributions* – For the year ended June 30, 2020, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2020, participating employers contributed 24.06% of each employee's wages for non-hazardous job classifications and 39.58% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 8. Plan members contributed 19.33% to the pension trust for non-hazardous job classifications and 30.06% to the pension trust for hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, 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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**7. RETIREMENT PLAN (CONTINUED)**

For the year ended June 30, 2020, the City contributed \$1,193,976 or 100% of the required contribution for non-hazardous job classifications, and \$1,781,641, for the year ended June 30, 2020, or 100% of the required contribution for hazardous job classifications, to the same pension trust.

*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. 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, 2020, 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>
\$ 42,082,437	\$ 17,086,150	\$ 24,996,287

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**7. RETIREMENT PLAN (CONTINUED)**

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward using generally accepted actuarial procedures. 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, 2019, was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.243%	.905%

The proportionate share at June 30, 2019 relative to June 30, 2018 decreased for non-hazardous by .0008% and increased for hazardous by .001%.

For the year ended June 30, 2020, the City recognized pension expense of \$7,923,237. At June 30, 2020, 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	\$ 1,498,295	\$ 72,193
Changes of assumptions	4,155,681	-
Net difference between projected and actual earnings on Plan investments	-	629,199
Changes in proportion and differences between City contributions and proportionate share of contributions	136,949	349,027
City contributions subsequent to the measurement date	<u>2,932,989</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 8,723,914</u></b>	<b><u>\$ 1,050,419</u></b>

The \$2,932,989 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>	
2021	\$ 3,251,584
2022	\$ 1,052,153
2023	\$ 394,702
2024	\$ 42,067

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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**7. RETIREMENT PLAN (CONTINUED)**

*Actuarial Assumptions* – The total pension liability reported at June 30, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous**

Inflation	2.30%
Salary increases	3.30% to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

**Hazardous**

Inflation	2.30%
Salary increases	3.55 to 19.05%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2018, actuarial 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, 2018) to the plan's fiscal year ending June 30, 2019.

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 nominal real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

**7. RETIREMENT PLAN (CONTINUED)**

*Discount Rate* – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-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%	\$ 21,369,926	5.25%	\$ 31,250,968
Current discount rate	6.25%	\$ 17,086,150	6.25%	\$ 24,996,287
1% increase	7.25%	\$ 13,515,662	7.25%	\$ 19,868,351

*Payable to the Pension Plan* – At June 30, 2020, the City reported a payable of \$447,051 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020. The payable includes both the pension and insurance contribution allocation.

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

*Plan Description* – As more fully described in Note 7, the City of Somerset participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

*Contributions* – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2020, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% 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 were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

For the year ended June 30, 2020, the City contributed \$294,473, or 100% of the required contribution for non-hazardous job classifications, and \$564,245, or 100% of the required contribution for hazardous job classifications.

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

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

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

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2020, 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>\$ 10,780,163</u>	<u>\$ 4,085,519</u>	<u>\$ 6,694,644</u>

The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward using generally accepted actuarial procedures. 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, 2019 was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.243%	.905%

The proportionate share at June 30, 2019 relative to June 30, 2018 for non-hazardous decreased by .008% and hazardous increased by .001%.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$1,432,744. At June 30, 2020, 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	\$ -	\$ 2,478,118
Changes of assumptions	3,232,033	20,760
Net difference between projected and actual earnings on Plan investments	-	566,360
Changes in proportion and differences between City contributions and proportionate share of contributions	-	220,609
City contributions subsequent to the measurement date	<u>941,577</u>	<u>-</u>
Total	<u>\$ 4,173,610</u>	<u>\$ 3,285,847</u>

The \$941,577 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, 2021. This includes adjustments of \$87,723 for the nonhazardous implicit subsidy and \$4,795 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:

<b>Year ending June 30,</b>	
2021	341,432
2022	(14,638)
2023	(159,298)
2024	(94,840)
2025	(106,332)
2056	(20,138)

*Actuarial Assumptions* – The total OPEB liability reported at June 30, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**Non-hazardous and Hazardous**

Inflation	2.30%
Salary increases	3.30 to 10.30%, varies by service, 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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumption used in the June 30, 2018, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

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>Growth</b>	<b>62.50%</b>	
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	2.60%
<b>Liquidity</b>	<b>14.50%</b>	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
<b>Diversifying Strategies</b>	<b>23.00%</b>	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
<b>Total</b>	<b>100.00%</b>	<b>6.25%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.68% and 5.69% 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 24-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 28, 2019. 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, 2020**

**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	4.68%	\$ 5,472,915	4.69%	\$ 9,340,377
Current discount rate	5.68%	\$ 4,085,519	5.69%	\$ 6,694,644
1% increase	6.68%	\$ 2,942,397	6.69%	\$ 4,547,077

*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		\$ 3,038,421		\$ 4,658,234
Current trend rate		\$ 4,085,519		\$ 6,694,644
1% increase		\$ 5,355,249		\$ 9,178,952

*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 2020 were levied in September 2019 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, 2% 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, 2020**

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**10. TRANSFER OF FUNDS**

The following transfers were made during the year:

<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
General	Parks & Recreation	General operations	\$ 1,175,000
Gas	General	General operations	\$ 2,700,000
Sanitation	Waterpark	General operations	\$ 385,000
Water	General	General operations	\$ 1,475,630

**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, 2020, are summarized below:

**Governmental Activities**

2021	\$ 342,203
2022	273,921
2023	121,455
2024	<u>48,912</u>
Total	<u>\$ 786,491</u>

**Business-type Activities**

2021	\$ 177,092
2022	141,348
2023	58,309
2024	<u>3,251</u>
Total	<u>\$ 380,000</u>

Lease expense for June 30, 2020, was \$287,874 and \$181,002 for the governmental activities and the business-type activities, respectively.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2020**

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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, 2020, 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.

**15. COVID-19 PANDEMIC**

In early 2020, various restrictions were placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The City is evaluating the impact of COVID-19 and related responses on the operations and finances of the City. Restrictions placed on the local businesses could negatively impact the City's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

**16. SUBSEQUENT BOND ISSUANCE**

On August 6, 2020, the City issued \$8,575,000 of General Obligation Bonds, Series 2020. The bonds were issued to refund Series 2015A and 2015B. The refunding reduces debt service payments by \$3,102,162 and has a net economic gain of \$1,562,391. The bonds bear fixed interest at a rate of 2.00%-3.00%.

On October 29, 2021, the City plans to issue \$6,769,000 of General Obligation Refunding Bonds, Series 2021. The bonds are being issued to refund the Series 2011 General Obligation Bonds. The refunding is expected to reduce debt service payments by \$409,495 and have a net economic gain of \$349,804. The bonds are expected to bear interest at a rate of 2.80%.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2020**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Taxes	\$ 1,521,000	\$ 1,521,000	\$ 1,488,939	\$ (32,061)
Licenses and permits	6,827,500	6,827,500	7,776,297	948,797
Fines and forfeits	27,000	27,000	29,942	2,942
Intergovernmental	3,888,783	3,888,783	1,689,946	(2,198,837)
Interest income	40,000	40,000	63,478	23,478
Other revenues	<u>1,039,000</u>	<u>1,039,000</u>	<u>1,103,382</u>	<u>64,382</u>
<b>TOTAL REVENUES</b>	<u>13,343,283</u>	<u>13,343,283</u>	<u>12,151,984</u>	<u>(1,191,299)</u>
<b>EXPENDITURES</b>				
General administration	6,011,275	6,011,275	4,101,666	(1,909,609)
Public safety	8,997,350	8,997,350	8,555,187	(442,163)
Public services	242,500	242,500	164,338	(78,162)
Streets	3,638,060	3,638,060	1,024,576	(2,613,484)
Downtown revitalization	360,500	360,500	202,500	(158,000)
Intergovernmental programs	481,400	481,400	390,288	(91,112)
Capital outlay (Note 1)	550,000	550,000	2,621,193	2,071,193
Debt service - principal	568,458	568,458	559,307	(9,151)
Debt service - interest	<u>1,875,042</u>	<u>1,875,042</u>	<u>338,997</u>	<u>(1,536,045)</u>
<b>TOTAL EXPENDITURES</b>	<u>22,724,585</u>	<u>22,724,585</u>	<u>17,958,052</u>	<u>(4,766,533)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of debt	3,050,000	3,050,000	1,000,000	(2,050,000)
Transfer from other funds	4,200,630	4,200,630	4,175,627	(25,003)
Transfer to other funds	<u>(1,275,000)</u>	<u>(1,275,000)</u>	<u>(1,175,000)</u>	<u>100,000</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>5,975,630</u>	<u>5,975,630</u>	<u>4,000,627</u>	<u>(1,975,003)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,405,672)	(3,405,672)	(1,805,441)	1,600,231
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>3,405,672</u>	<u>3,405,672</u>	<u>3,145,632</u>	<u>(260,040)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,340,191</u>	<u>\$ 1,340,191</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, 2020**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 3,265,000	\$ 3,265,000	\$ 2,937,937	\$ (327,063)
Intergovernmental revenues	1,350,000	1,350,000	1,666,678	316,678
Interest income	1,300	1,300	934	(366)
Other revenues	<u>45,000</u>	<u>45,000</u>	<u>54,668</u>	<u>9,668</u>
<b>TOTAL REVENUES</b>	<u>4,661,300</u>	<u>4,661,300</u>	<u>4,660,217</u>	<u>(1,083)</u>
<b>EXPENDITURES</b>				
Emergency medical services	5,604,100	5,604,100	5,335,006	(269,094)
Capital outlay (Note 1)	-	-	272,778	272,778
Debt service - principal	23,358	23,358	23,358	-
Debt service - interest	<u>279,642</u>	<u>279,642</u>	<u>3,756</u>	<u>(275,886)</u>
<b>TOTAL EXPENDITURES</b>	<u>5,907,100</u>	<u>5,907,100</u>	<u>5,634,898</u>	<u>(272,202)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	610,000	610,000	-	(610,000)
Transfer to other funds	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>710,000</u>	<u>710,000</u>	<u>-</u>	<u>(710,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(535,800)	(535,800)	(974,681)	(438,881)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>535,800</u>	<u>535,800</u>	<u>(1,159,472)</u>	<u>(1,695,272)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,134,153)</u>	<u>\$ (2,134,153)</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**WATERPARK FUND**  
**for the year ended June 30, 2020**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,213,000	\$ 1,213,000	\$ 740,234	\$ (472,766)
Interest income	650	650	759	109
Other revenues	<u>27,000</u>	<u>27,000</u>	<u>22,435</u>	<u>(4,565)</u>
<b>TOTAL REVENUES</b>	<u>1,240,650</u>	<u>1,240,650</u>	<u>763,428</u>	<u>(477,222)</u>
<b>EXPENDITURES</b>				
Waterpark	1,470,300	1,470,300	1,168,770	(301,530)
Capital outlay (Note 1)	-	-	39,789	39,789
Debt service - principal	96,239	96,239	96,239	-
Debt service - interest	<u>59,111</u>	<u>59,111</u>	<u>59,111</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,625,650</u>	<u>1,625,650</u>	<u>1,363,909</u>	<u>(261,741)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	<u>385,000</u>	<u>385,000</u>	<u>385,000</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>385,000</u>	<u>385,000</u>	<u>385,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(215,481)	(215,481)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>(4,069,747)</u>	<u>(4,069,747)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,285,228)</u>	<u>\$ (4,285,228)</u>

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

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**FUEL CENTER FUND**  
**for the year ended June 30, 2020**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,456,500	\$ 1,456,500	\$ 747,077	\$ (709,423)
Interest income	<u>300</u>	<u>300</u>	<u>164</u>	<u>(136)</u>
<b>TOTAL REVENUES</b>	<u>1,456,800</u>	<u>1,456,800</u>	<u>747,241</u>	<u>(709,559)</u>
<b>EXPENDITURES</b>				
Fuel center	1,456,800	1,456,800	815,901	(640,899)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,456,800</u>	<u>1,456,800</u>	<u>815,901</u>	<u>(640,899)</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 BALANCE</b>	-	-	(68,660)	(68,660)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>106,649</u>	<u>106,649</u>	<u>106,649</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 106,649</u>	<u>\$ 106,649</u>	<u>\$ 37,989</u>	<u>\$ (68,660)</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)
City's proportion of the net pension liability	0.257%	0.257%	0.266%	0.247%	0.253%	0.251%	0.243%
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	\$ 17,086,150
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
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%	271.46%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%

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 Seven Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)
City's proportion of the net pension liability	0.923%	0.923%	0.922%	0.882%	0.908%	0.904%	0.905%
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	\$ 24,996,287
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
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%	487.40%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	53.95%	49.78%	49.26%	46.63%

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

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

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Contractually required employer contribution	\$ 675,388	\$ 805,078	\$ 804,991	\$ 727,713	\$ 863,880	\$ 904,347	\$ 1,020,927	\$ 1,193,976
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>	<u>1,193,976</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406
Employer contributions as a percentage of covered-employee payroll	12.60%	13.73%	12.75%	12.42%	14.05%	14.48%	16.22%	19.30%

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

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

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	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Contractually required employer contribution	\$ 948,760	\$ 1,016,016	\$ 1,002,090	\$ 924,463	\$ 1,066,417	\$ 1,115,070	\$ 1,275,458	\$ 1,781,641
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>	<u>1,781,641</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 5,926,948
Employer contributions as a percentage of covered-employee payroll	20.08%	21.70%	20.78%	20.29%	21.71%	22.20%	24.87%	30.06%

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 Four Fiscal Years**

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>
City's proportion of the net OPEB liability	0.247%	0.253%	0.251%	0.243%
City's proportionate share of the net OPEB liability (asset)	\$ 3,987,166	\$ 5,083,271	\$ 4,435,842	\$ 4,085,519
City's covered employee payroll	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	68.05%	82.65%	71.02%	64.91%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%

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 Four Fiscal Years**

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>
City's proportion of the net OPEB liability	0.882%	0.908%	0.904%	0.905%
City's proportionate share of the net OPEB liability (asset)	\$ 4,487,562	\$ 7,510,105	\$ 6,442,359	\$ 6,694,644
City's covered employee payroll	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499
City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	98.49%	152.89%	128.26%	130.54%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 370,875	\$ 301,758	\$ 310,632	\$ 271,867	\$ 292,914	\$ 293,538	\$ 331,078	\$ 294,473
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>	<u>294,473</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406
Employer contributions as a percentage of covered-employee payroll	6.92%	5.15%	4.92%	4.64%	4.76%	4.70%	5.26%	4.76%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 826,035	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954	\$ 564,245
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>	<u>564,245</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 5,926,948
Employer contributions as a percentage of covered-employee payroll	17.48%	13.89%	13.61%	12.71%	9.35%	9.35%	10.47%	9.52%

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2020**

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**1. GENERAL INFORMATION**

**Contributions**

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

**Payroll**

The Company's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

**2. CHANGES OF ASSUMPTIONS**

**June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

**June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

**June 30, 2017 – Pension – Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

**June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2020**

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**2. CHANGES OF ASSUMPTIONS (CONTINUED)**

**June 30, 2015 – Pension – Hazardous and Nonhazardous**

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

**June 30, 2014 – Pension – Hazardous and Nonhazardous**

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

**June 30, 2013 – Pension – Hazardous and Nonhazardous**

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

## **SUPPLEMENTARY INFORMATION**

**CITY OF SOMERSET, KENTUCKY  
COMBINING BALANCE SHEET  
ALL NONMAJOR FUNDS  
June 30, 2020**

	<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>2020 Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 148,508	\$ 128,608	\$ 8,194	\$ 5,566	\$ 104,885	\$ 395,761
Receivables, net	16,571	517	11,191	15,750	16,597	60,626
Inventories	-	575	-	15,200	-	15,775
Due from other fund	-	-	-	-	31	31
Prepaid expenses	-	-	-	-	625	625
Total assets	<u>\$ 165,079</u>	<u>\$ 129,700</u>	<u>\$ 19,385</u>	<u>\$ 36,516</u>	<u>\$ 122,138</u>	<u>\$ 472,818</u>
 <b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Accounts payable	\$ 65,407	\$ 69,720	\$ -	\$ 3,567	\$ 1,177	\$ 139,871
Due to other fund	-	32,825	70,000	28,654	23,956	155,435
Other current liabilities	-	36,269	-	3,367	9,095	48,731
Total liabilities	65,407	138,814	70,000	35,588	34,228	344,037
Fund balance	<u>99,672</u>	<u>(9,114)</u>	<u>(50,615)</u>	<u>928</u>	<u>87,910</u>	<u>128,781</u>
Total liabilities and fund balance	<u>\$ 165,079</u>	<u>\$ 129,700</u>	<u>\$ 19,385</u>	<u>\$ 36,516</u>	<u>\$ 122,138</u>	<u>\$ 472,818</u>



**CITY OF SOMERSET, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ALL NONMAJOR FUNDS**  
**for the year ended June 30, 2020**

	<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>2020 Total</b>
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 197,910	\$ 197,910
Charges for services	-	134,166	-	24,565	-	158,731
Intergovernmental revenues	212,555	-	37,876	-	-	250,431
Interest income	940	847	59	148	-	1,994
Other revenues	-	4,110	-	1,508	362	5,980
<b>Total revenues</b>	<u>213,495</u>	<u>139,123</u>	<u>37,935</u>	<u>26,221</u>	<u>198,272</u>	<u>615,046</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
Streets	110,502	-	-	-	-	110,502
Parks and recreation	-	1,177,395	-	-	-	1,177,395
Cemetery	-	-	-	117,307	-	117,307
Travel and tourism	-	-	-	-	194,720	194,720
Capital outlay	195,634	55,158	-	-	-	250,792
Debt Service	-	-	-	-	-	-
<b>Total expenditures</b>	<u>306,136</u>	<u>1,232,553</u>	<u>-</u>	<u>117,307</u>	<u>194,720</u>	<u>1,850,716</u>
Excess revenues over (under) expenditures before other sources (uses)	(92,641)	(1,093,430)	37,935	(91,086)	3,552	(1,235,670)
<b>Other financing sources</b>						
Transfers from (to) other funds	-	1,175,000	-	-	-	1,175,000
<b>Total other financing sources</b>	-	1,175,000	-	-	-	1,175,000
<b>Excess revenues and other sources over (under) expenditures</b>	(92,641)	81,570	37,935	(91,086)	3,552	(60,670)
Fund balance, beginning of year	<u>192,313</u>	<u>(90,684)</u>	<u>(88,550)</u>	<u>92,014</u>	<u>84,358</u>	<u>189,451</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 99,672</u>	<u>\$ (9,114)</u>	<u>\$ (50,615)</u>	<u>\$ 928</u>	<u>\$ 87,910</u>	<u>\$ 128,781</u>

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**GAS DEPARTMENT**  
**for the year ended June 30, 2020**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 10,500,000	\$ 7,833,240	\$ (2,666,760)
Transportation/surcharges	1,127,000	908,121	(218,879)
Other operating revenues	326,000	336,372	10,372
<b>TOTAL OPERATING REVENUES</b>	<b>11,953,000</b>	<b>9,077,733</b>	<b>(2,875,267)</b>
<b>OPERATING EXPENSES</b>			
Gas purchases, net of refunds	4,903,050	3,062,411	(1,840,639)
Maintenance	611,500	433,983	(177,517)
Personnel services (Note 1)	1,647,800	2,191,253	543,453
Supplies	83,850	78,681	(5,169)
Utilities	65,000	60,589	(4,411)
Insurance	100,000	79,475	(20,525)
Engineering	288,000	65,116	(222,884)
Severance tax	30,000	5,670	(24,330)
Contract compression	300,000	287,543	(12,457)
Management fees	320,000	320,000	-
Other	341,800	202,018	(139,782)
Depreciation	500,000	462,855	(37,145)
<b>TOTAL OPERATING EXPENSES</b>	<b>9,191,000</b>	<b>7,249,594</b>	<b>(1,941,406)</b>
<b>OPERATING INCOME</b>	<b>2,762,000</b>	<b>1,828,139</b>	<b>(933,861)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	10,000	12,612	2,612
Interest expense	(72,000)	(30,522)	41,478
Gain (loss) on asset disposal	-	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(62,000)</b>	<b>(17,910)</b>	<b>44,090</b>
<b>INCOME BEFORE BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>2,700,000</b>	<b>1,810,229</b>	<b>(889,771)</b>
Capital contributed - Grants	-	80,638	80,638
Transfers in	-	-	-
Transfers out	(2,700,000)	(2,702,670)	(2,670)
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>\$ -</b>	<b>\$ (811,803)</b>	<b>\$ (811,803)</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, 2020**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 8,335,000	\$ 7,361,187	\$ (973,813)
Transportation/surcharges	85,000	146,174	61,174
Other operating revenues	25,000	78,872	53,872
<b>TOTAL OPERATING REVENUES</b>	<b>8,445,000</b>	<b>7,586,233</b>	<b>(858,767)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	800,000	440,539	(359,461)
Personnel services (Note 1)	1,801,850	2,051,202	249,352
Supplies	482,000	472,065	(9,935)
Utilities	850,000	819,807	(30,193)
Insurance	110,000	107,170	(2,830)
Engineering	45,000	32,511	(12,489)
Management fees	320,000	320,000	-
Other	127,000	123,774	(3,226)
Amortization	-	9,022	9,022
Depreciation	1,500,000	1,479,640	(20,360)
<b>TOTAL OPERATING EXPENSES</b>	<b>6,035,850</b>	<b>5,855,730</b>	<b>(180,120)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>2,409,150</b>	<b>1,730,503</b>	<b>(678,647)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	20,500	32,501	12,001
Interest expense	(439,020)	(435,168)	3,852
Gain (loss) on asset disposal	-	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(418,520)</b>	<b>(402,667)</b>	<b>15,853</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>1,990,630</b>	<b>1,327,836</b>	<b>(662,794)</b>
Capital contributed - Grants	-	63,245	63,245
Transfers in	-	-	-
Transfers out	(1,475,630)	(1,469,463)	6,167
<b>INCREASE (DECREASE) IN NET POSITION (Note 2)</b>	<b>\$ 515,000</b>	<b>\$ (78,382)</b>	<b>\$ (593,382)</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 and capital asset purchases. Principal debt payments and capital asset purchases are not presented on this schedule. Consequently, this schedule shows a budgeted increase in net position of \$515,000.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WASTEWATER DEPARTMENT**  
**for the year ended June 30, 2020**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 3,500,000	\$ 2,717,473	\$ (782,527)
Transportation/surcharges	27,500	16,807	(10,693)
Other operating revenues	89,000	200,034	111,034
<b>TOTAL OPERATING REVENUES</b>	<b>3,616,500</b>	<b>2,934,314</b>	<b>(682,186)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	585,000	343,905	(241,095)
Personnel services (Note 1)	1,251,300	1,209,238	(42,062)
Supplies	21,000	18,751	(2,249)
Utilities	410,000	407,166	(2,834)
Insurance	55,500	49,445	(6,055)
Engineering	51,000	25,882	(25,118)
Treatment	95,000	102,619	7,619
Other	119,820	87,190	(32,630)
Depreciation	1,150,000	1,066,724	(83,276)
<b>TOTAL OPERATING EXPENSES</b>	<b>3,738,620</b>	<b>3,310,920</b>	<b>(427,700)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(122,120)</b>	<b>(376,606)</b>	<b>(254,486)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	57,500	78,734	21,234
Interest expense	(180,742)	(177,659)	3,083
Gain (loss) on asset disposal	-	-	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(123,242)</b>	<b>(98,925)</b>	<b>24,317</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>(245,362)</b>	<b>(475,531)</b>	<b>(230,169)</b>
Capital contributed - Grants	-	115,000	115,000
Transfers in	-	-	-
Transfers out	-	(6,800)	(6,800)
<b>INCREASE (DECREASE) IN NET POSITION (Note 2)</b>	<b>\$ (245,362)</b>	<b>\$ (367,331)</b>	<b>\$ (121,969)</b>

Note 1: Adjustments to account for the changes in the net pension liability and the net OPEB liability resulted in a 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 \$563,218. Additionally, the City budgeted for \$808,580 in cash balance forward from the prior year. Principal payments and budgeted cash balance forward amounts are not presented on this schedule. Consequently, this schedule shows a budgeted decrease in net position.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**SANITATION DEPARTMENT**  
**for the year ended June 30, 2020**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 4,250,000	\$ 3,794,030	\$ (455,970)
Other operating revenues	57,700	47,520	(10,180)
<b>TOTAL OPERATING REVENUES</b>	<b>4,307,700</b>	<b>3,841,550</b>	<b>(466,150)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	217,500	196,252	(21,248)
Personnel services (Note 1)	1,362,300	1,505,975	143,675
Supplies	275,500	217,650	(57,850)
Utilities	14,000	16,536	2,536
Insurance	50,000	61,099	11,099
Landfill	1,300,000	1,079,712	(220,288)
Management fees	320,000	320,000	-
Other	282,800	268,409	(14,391)
Depreciation	235,000	270,992	35,992
<b>TOTAL OPERATING EXPENSES</b>	<b>4,057,100</b>	<b>3,936,625</b>	<b>(120,475)</b>
<b>OPERATING INCOME</b>	<b>250,600</b>	<b>(95,075)</b>	<b>(345,675)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	10,000	19,505	9,505
Interest expense	(83,100)	(18,127)	64,973
Gain (loss) on asset disposal	-	(13,060)	(13,060)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(73,100)</b>	<b>(11,682)</b>	<b>61,418</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<b>177,500</b>	<b>(106,757)</b>	<b>(284,257)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(400,000)	(385,000)	15,000
<b>TOTAL OPERATING TRANSFERS</b>	<b>(400,000)</b>	<b>(385,000)</b>	<b>15,000</b>
<b>INCREASE IN NET POSITION (Note 2)</b>	<b>\$ (222,500)</b>	<b>\$ (491,757)</b>	<b>\$ (269,257)</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 capital asset purchases totaling \$40,000. Additionally, the City budgeted for \$262,500 in cash balance forward from the prior year. Capital asset purchases and budgeted cash balance forward amounts are not presented on this schedule. Consequently, this schedule shows a budgeted decrease 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, 2020, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated November 19, 2020.

**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 results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

**RFH**

RFH, PLLC  
Lexington, Kentucky  
November 19, 2020



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

To the Mayor and City Council  
City of Somerset, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited the City of Somerset, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Somerset, Kentucky's major federal programs for the year ended June 30, 2020. City of Somerset, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Somerset, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Somerset, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the City of Somerset, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.



## Report on Internal Control over Compliance

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

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

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

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

**RFH**

RFH, PLLC  
Lexington, Kentucky  
November 19, 2020

**CITY OF SOMERSET, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**for the year ended June 30, 2020**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass/Through Contract Number	Grant Contract Period	Passed Through to Subrecipients	Expenditures
U.S. Department of the Treasury (TREAS) Passed through the Kentucky Department for Local Government COVID-19 - Coronavirus Relief Fund for States	21.019	N/A	4/1/2020 - 6/30/2020	\$ -	\$ 825,916
<b>Total U.S. Department of the Treasury</b>				<b>\$ -</b>	<b>\$ 825,916</b>
U.S. Department of Housing and Urban Development Passed through the Kentucky Department for Local Government Community Development Block Grant/State's Program	14.228	18.059	7/1/2019- 6/30/2020	\$ -	\$ 295,500
<b>Total U.S. Department of Housing and Urban Development</b>				<b>\$ -</b>	<b>\$ 295,500</b>
U.S. Department of Transportation Passed through the Kentucky Transportation Cabinet Highway Planning and Construction	20.205	N/A	7/1/2019-6/30/2020	-	207,106
National Priority Safety Program	20.616	N/A	7/1/2019-6/30/2020	-	13,780
<b>Total U.S. Department of Transportation</b>				<b>\$ -</b>	<b>\$ 220,886</b>
Direct Grants U.S. Department of Health and Human Services (HHS) COVID-19 - Provider Relief Fund	93.498	N/A	4/1/2020 - 6/30/2020	\$ -	\$ 111,133
<b>Total U.S. Department of Health and Human Services</b>				<b>\$ -</b>	<b>\$ 111,133</b>
U.S. Department of Homeland Security SAFER Grant	97.083	N/A	7/1/2019-6/30/2020	\$ -	\$ 134,566
<b>Total U.S. Department of Homeland Security</b>				<b>\$ -</b>	<b>\$ 134,566</b>
<b>Total federal awards expended</b>				<b>\$ -</b>	<b>\$ 1,588,001</b>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Somerset, Kentucky and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) . Therefore, some amounts presented in, or used in the preparation of, the basic financial statements may differ from these numbers.

**Note 2 - Indirect Cost Rates**

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

**CITY OF SOMERSET, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended June 30, 2020**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified \_\_Yes XNo

Significant deficiencies identified that are not  
considered to be material weaknesses \_\_Yes XNone reported

Non-compliance material to financial statements noted \_\_Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified \_\_Yes XNo

Significant deficiencies identified that are not  
considered to be material weaknesses \_\_Yes XNone reported

Type of auditor's report issued on compliance for major programs:

Unmodified for all major programs.

Any audit findings disclosed that are required to be  
reported in accordance with 2 CFR 200.516(a)? \_\_Yes XNo

**Major Program:**

<b>CFDA Numbers</b>	<b>Name of Federal Program or Cluster</b>
21.019	COVID-19 - Coronavirus Relief Fund

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

Auditee qualified as a low-risk auditee? \_\_Yes XNo

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

NONE

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE