

CITY OF SOMERSET
Somerset, Kentucky

FINANCIAL STATEMENTS
June 30, 2021

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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, 2021, 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, 2021, 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 30, 2021, 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 30, 2021

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, 2021. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources were \$159.70 million
- Total bank balances totaled \$21.1 million
- Total long-term debt increased by \$6.84 million
- General fund reported a fund balance of \$4.18 million
- During the year, the City's business-type activities generated net revenues of \$6 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$48.5 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$15 million in unfunded liability for future OPEB cost.
- Of the major business components, natural gas 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 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 decreased by \$5.98 million from the prior year. This decrease is primarily due to GASB accounting rules for reporting unfunded liability for future pension and OPEB costs. 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)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Activities</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current & Other Assets	\$ 1.33	\$ (3.05)	\$ 25.89	\$ 25.20	\$ 27.22	\$ 22.15
Capital Assets	34.74	33.02	82.10	81.19	116.84	114.21
Deferred Outflows	<u>12.70</u>	<u>10.18</u>	<u>2.93</u>	<u>2.71</u>	<u>15.63</u>	<u>12.89</u>
Total Assets and Deferred Outflows	<u>48.77</u>	<u>40.15</u>	<u>110.92</u>	<u>109.10</u>	<u>159.69</u>	<u>149.25</u>
Current Liabilities	3.57	2.75	3.80	2.62	7.37	5.37
Long Term Liabilities	70.60	56.05	38.42	36.92	109.02	92.97
Deferred Inflows	<u>1.77</u>	<u>3.11</u>	<u>.94</u>	<u>1.23</u>	<u>2.71</u>	<u>4.34</u>
Total Liabilities/Deferred Inflows	<u>75.94</u>	<u>61.91</u>	<u>43.16</u>	<u>40.77</u>	<u>119.10</u>	<u>102.68</u>
Net investment in capital assets	18.53	17.48	54.24	54.47	72.77	71.95
Restricted	6.00	1.13	.82	.74	6.82	1.87
Unrestricted	<u>(51.70)</u>	<u>(40.37)</u>	<u>12.70</u>	<u>13.12</u>	<u>(39.00)</u>	<u>(27.25)</u>
Total Net Position	<u>\$ (27.17)</u>	<u>\$ (21.76)</u>	<u>\$ 67.76</u>	<u>\$ 68.33</u>	<u>\$ 40.59</u>	<u>\$ 46.57</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by \$11.75 million during fiscal year 2021. 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 increased from \$40.15 million at June 30, 2020 to \$48.77 million at June 30, 2021. The major contributing factor for this increase is due to having cash on hand from long term debt proceeds to be used for future projects.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues						
Program Revenues						
Charges for Services	\$ 6.07	\$ 4.58	\$ 24.29	\$ 23.44	\$ 30.36	\$ 28.02
Federal & State Grants	3.43	3.69	3.06	.26	6.49	3.95
General Revenues						
Property Taxes	1.79	1.69	-	-	1.79	1.69
Other Taxes and License Fees	8.36	7.78	-	-	8.36	7.78
Other General Revenues	<u>1.76</u>	<u>1.28</u>	<u>.05</u>	<u>.14</u>	<u>1.81</u>	<u>1.42</u>
Total Revenues	<u>\$ 21.41</u>	<u>\$ 19.02</u>	<u>\$ 27.40</u>	<u>\$ 23.84</u>	<u>\$ 48.81</u>	<u>\$ 42.86</u>
Program Expenses						
General Government	\$ 5.14	\$ 4.66	\$ -	\$ -	\$ 5.14	\$ 4.66
Public Safety	12.65	11.12	-	-	12.65	11.12
Public Services	.20	.16	-	-	.20	.16
Streets	1.84	1.79	-	-	1.84	1.79
Parks and Recreation	1.40	1.47	-	-	1.40	1.47
Emergency Medical Services	7.06	6.91	-	-	7.06	6.91
Cemetery	.14	.13	-	-	.14	.13
Fuel Center	.97	.85	-	-	.97	.85
Waterpark	2.34	1.89	-	-	2.34	1.89
Travel & Tourism	.16	.21	-	-	.16	.21
Intergovernmental Programs	.11	.40	-	-	.11	.40
Downtown Revitalization	.16	.20	-	-	.16	.20
Debt Service – Interest & bond costs	.81	.51	-	-	.81	.51
Gas	-	-	7.46	7.28	7.46	7.28
Water	-	-	6.37	6.29	6.37	6.29
Wastewater	-	-	3.79	3.49	3.79	3.49
Sanitation	-	-	3.95	3.96	3.95	3.96
Total Expense	<u>\$ 32.98</u>	<u>\$ 30.30</u>	<u>\$ 21.57</u>	<u>\$ 21.02</u>	<u>\$ 54.55</u>	<u>\$ 51.32</u>
Gain (Loss) on disposal of capital assets	\$ (.41)	\$ -	\$.17	\$ (.01)	\$ (.24)	\$ (.01)
Excess (Deficiency) before Transfer	(11.98)	(11.28)	6.00	2.81	(5.98)	(8.47)
Transfer	<u>6.57</u>	<u>4.56</u>	<u>(6.57)</u>	<u>(4.56)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(5.41)	(6.72)	(.57)	(1.75)	(5.98)	(8.47)
Net Position, beginning	<u>(21.76)</u>	<u>(15.04)</u>	<u>68.33</u>	<u>70.08</u>	<u>46.57</u>	<u>55.04</u>
Net Position, ending	<u>\$ (27.17)</u>	<u>\$ (21.76)</u>	<u>\$ 67.76</u>	<u>\$ 68.33</u>	<u>\$ 40.59</u>	<u>\$ 46.57</u>

Management's Discussion and Analysis, Continued

The City's total revenues increased by \$ 5.95 million. The total cost of all programs and services increased by \$ 3.23 million. The major change in revenue comes from capital grants and contributions and a increase in charges for services. The major contributing factor for this increase in cost is due to increases in GASB Pension and OPEB expenses. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The cost of all governmental activities this year was \$32.98 million compared to \$30.30 million last year. Overall, the City's governmental program fees for services increased from \$4.58 million in 2020 to \$6.07 million in 2021. The City paid for the remaining "public benefit" portion of governmental activities with \$10.15 million in taxes and license fees, \$3.43 million in grants and entitlements, \$1.76 million of other revenues, and \$6.57 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 \$1.45 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Emergency Medical Services	\$ 7.06	\$ 6.91	\$ 2.08	\$ 2.30
Police and Fire Department	12.65	11.12	11.34	9.72
Streets	1.84	1.79	1.59	1.45
Waterpark	2.34	1.89	.84	1.15
Parks and recreation	1.40	1.47	1.28	1.33
All Others	<u>7.69</u>	<u>7.12</u>	<u>6.35</u>	<u>6.08</u>
Totals	<u>\$ 32.98</u>	<u>\$ 30.30</u>	<u>\$ 23.48</u>	<u>\$ 22.03</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$3.56 million (\$23.84 million in 2020 compared to \$27.40 million in 2021) and expenses increased by \$.55 million (\$21.02 million in 2020 compared to \$21.57 million in 2021). The factors driving these results include:

The major increase in revenue for this fiscal year is due to a increase in Grants. The major contributing factor for the increase in expense is due to the increase in employee related expenses, gas purchases, maintenance, and depreciation.

- 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 \$4.18 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 \$.36 million more than the \$13.03 million budgeted, while actual expenditures were \$3.80 million less than the expected \$34.50 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2021, the City had \$116.84 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	\$ 4.00	\$ 3.36	\$ 1.00	\$ 1.00	\$ 5.00	\$ 4.36
Right of Way and Easements	.01	.01	.14	.14	.15	.15
Construction in Progress	.39	1.55	1.26	.59	1.65	2.14
Infrastructure	11.99	12.63	-	-	11.99	12.63
Utility Plant and Distribution System	-	-	43.43	42.52	43.43	42.52
Buildings and Improvements	14.81	13.79	33.34	34.35	48.15	48.14
Vehicles	2.77	1.15	1.43	1.41	4.20	2.56
Equipment	.48	.25	.96	0.63	1.44	.88
Office Equipment	.01	.01	.47	0.48	0.48	0.49
Land Improvements	.28	.27	.07	.07	0.35	0.34
Total	<u>\$ 34.74</u>	<u>\$ 33.02</u>	<u>\$ 82.10</u>	<u>\$ 81.19</u>	<u>\$ 116.84</u>	<u>\$ 114.21</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. The City has upgraded our fleet across several departments, upgraded our utility plant and distribution systems, upgraded our equipment in several departments and had 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, 2021, the City's Governmental Activities long term debt had increased by \$5.71 million and the Business-Type Activities long term debt increased by \$1.13 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$6 million and \$.44 million respectively. We are now required to include our OPEB Liability, which increased in the Governmental Activities by \$3.39 million and increased in the Business-Type activities by \$.85 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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Long-Term Debt	\$ 21.24	\$ 15.53	\$ 27.90	\$ 26.77	\$ 49.14	\$ 42.30
Net Pension Liability	38.70	32.70	9.82	9.38	48.52	42.08
Net OPEB Liability	<u>11.93</u>	<u>8.54</u>	<u>3.09</u>	<u>2.24</u>	<u>15.02</u>	<u>10.78</u>
Totals	<u>\$ 71.87</u>	<u>\$ 56.77</u>	<u>\$ 40.81</u>	<u>\$ 38.39</u>	<u>\$ 112.68</u>	<u>\$ 95.16</u>

Insurance costs and retirement contribution percentages continue to have a major impact on the current and all future budgets. The City is continuing to pay for the employee's 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, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,373,242	\$ 5,033,991	\$ 8,407,233
Certificates of deposit	1,008,277	4,660,042	5,668,319
Investments	-	488,966	488,966
Receivables, net	2,673,909	2,231,477	4,905,386
Accrued interest receivable	395	455	850
Inventories	138,004	679,628	817,632
Prepaid expenses	231,527	94,713	326,240
Internal balances, net	(11,843,243)	11,843,243	-
Total current assets	<u>(4,417,889)</u>	<u>25,032,515</u>	<u>20,614,626</u>
Noncurrent assets			
Restricted cash and cash equivalents	5,743,856	816,074	6,559,930
Excess cost over market value of assets acquired, net	-	42,171	42,171
Capital assets			
Nondepreciable capital assets	4,407,689	2,383,038	6,790,727
Depreciable capital assets, net	<u>30,336,257</u>	<u>79,718,985</u>	<u>110,055,242</u>
Total noncurrent assets	<u>40,487,802</u>	<u>82,960,268</u>	<u>123,448,070</u>
Total assets	<u>36,069,913</u>	<u>107,992,783</u>	<u>144,062,696</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	8,038,797	1,537,260	9,576,057
Deferred outflows - OPEB	<u>4,666,094</u>	<u>1,395,984</u>	<u>6,062,078</u>
Total deferred outflows of resources	<u>12,704,891</u>	<u>2,933,244</u>	<u>15,638,135</u>
Total assets and deferred outflows of resources	<u>\$ 48,774,804</u>	<u>\$ 110,926,027</u>	<u>\$ 159,700,831</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 1,040,131	\$ 715,259	\$ 1,755,390
Accrued interest payable	118,759	153,093	271,852
Other current liabilities	1,140,362	550,854	1,691,216
Current portion of long-term debt	<u>1,273,148</u>	<u>2,380,965</u>	<u>3,654,113</u>
Total current liabilities	<u>3,572,400</u>	<u>3,800,171</u>	<u>7,372,571</u>
Noncurrent liabilities			
Notes payable	930,875	5,606,472	6,537,347
Bonds payable	19,039,891	19,914,727	38,954,618
Net pension liability	38,705,105	9,815,230	48,520,335
Net OPEB liability	<u>11,928,007</u>	<u>3,090,058</u>	<u>15,018,065</u>
Total noncurrent liabilities	<u>70,603,878</u>	<u>38,426,487</u>	<u>109,030,365</u>
Total liabilities	<u>74,176,278</u>	<u>42,226,658</u>	<u>116,402,936</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	241,329	272,911	514,240
Deferred inflows - OPEB	<u>1,529,486</u>	<u>668,579</u>	<u>2,198,065</u>
Total deferred inflows of resources	<u>1,770,815</u>	<u>941,490</u>	<u>2,712,305</u>
NET POSITION			
Net investment in capital assets	18,532,198	54,242,030	72,774,228
Restricted for			
Debt service	395,220	816,074	1,211,294
Construction	5,032,166	-	5,032,166
Other purposes	574,443	-	574,443
Unrestricted	<u>(51,706,316)</u>	<u>12,699,775</u>	<u>(39,006,541)</u>
Total net position	<u>(27,172,289)</u>	<u>67,757,879</u>	<u>40,585,590</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,774,804</u>	<u>\$ 110,926,027</u>	<u>\$ 159,700,831</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, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 5,138,827	\$ 13,020	\$ 306,000	\$ 100,000	\$ (4,719,807)	\$ -	\$ (4,719,807)
Public safety	12,645,547	-	1,303,868	-	(11,341,679)	-	(11,341,679)
Public services	204,178	-	-	-	(204,178)	-	(204,178)
Streets	1,840,057	-	250,817	-	(1,589,240)	-	(1,589,240)
Parks and recreation	1,397,617	115,638	-	-	(1,281,979)	-	(1,281,979)
Emergency medical services	7,060,533	3,510,087	1,468,399	-	(2,082,047)	-	(2,082,047)
Cemetery	142,503	34,725	-	-	(107,778)	-	(107,778)
Waterpark	2,337,934	1,495,630	-	-	(842,304)	-	(842,304)
Fuel center	965,165	898,906	-	-	(66,259)	-	(66,259)
Travel and tourism	162,895	-	-	-	(162,895)	-	(162,895)
Intergovernmental programs	113,703	-	-	-	(113,703)	-	(113,703)
Downtown revitalization	163,152	-	-	-	(163,152)	-	(163,152)
Interest on long-term debt	457,971	-	-	-	(457,971)	-	(457,971)
Bond issuance cost	353,845	-	-	-	(353,845)	-	(353,845)
Total governmental activities	32,983,927	6,068,006	3,329,084	100,000	(23,486,837)	-	(23,486,837)
Business-type activities							
Gas department	7,462,712	9,947,433	-	883,478	-	3,368,199	3,368,199
Water department	6,372,428	7,348,421	-	1,166,798	-	2,142,791	2,142,791
Wastewater department	3,790,722	3,271,617	-	1,003,116	-	484,011	484,011
Sanitation department	3,944,830	3,725,603	-	-	-	(219,227)	(219,227)
Total business-type activities	21,570,692	24,293,074	-	3,053,392	-	5,775,774	5,775,774
Total primary government	\$ 54,554,619	\$ 30,361,080	\$ 3,329,084	\$ 3,153,392	(23,486,837)	5,775,774	(17,711,063)
General revenues							
Taxes:							
Property taxes					1,593,075	-	1,593,075
Transient room tax					198,944	-	198,944
License fees:							
Franchise					995,526	-	995,526
Business					282,622	-	282,622
Insurance premiums					1,950,019	-	1,950,019
Occupational					4,260,102	-	4,260,102
ABC					872,928	-	872,928
Permits:							
Building					28,408	-	28,408
Planning and Zoning					9,824	-	9,824
Stormwater					3,570	-	3,570
Investment earnings					45,927	51,672	97,599
Miscellaneous					1,670,632	-	1,670,632
Total general revenues					11,911,577	51,672	11,963,249
Gain (loss) on disposal of capital assets					(405,831)	170,328	(235,503)
Transfers in (out)					6,566,711	(6,566,711)	-
Change in Net Position					(5,414,380)	(568,937)	(5,983,317)
Net position-beginning					(21,757,909)	68,326,816	46,568,907
NET POSITION-ENDING					\$ (27,172,289)	\$ 67,757,879	\$ 40,585,590

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

CITY OF SOMERSET, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2021

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 8,208,556	\$ 322,718	\$ 303,887	\$ 24,543	\$ 257,394	\$ 9,117,098
Certificates of deposit	1,008,277	-	-	-	-	1,008,277
Receivables, net	1,924,518	649,257	23,635	18,579	57,920	2,673,909
Interest receivable	395	-	-	-	-	395
Inventories	23,612	-	27,764	86,628	-	138,004
Prepaid expenses	171,511	55,559	3,207	625	625	231,527
Due from other funds	5,035,250	-	-	17,031	124	5,052,405
Total assets	<u>\$ 16,372,119</u>	<u>\$ 1,027,534</u>	<u>\$ 358,493</u>	<u>\$ 147,406</u>	<u>\$ 316,063</u>	<u>\$ 18,221,615</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 907,662	\$ 23,373	\$ 73,922	\$ 34,032	\$ 1,142	\$ 1,040,131
Due to other funds	10,505,671	1,874,699	4,356,579	101,104	57,595	16,895,648
Other current liabilities	<u>776,710</u>	<u>246,568</u>	<u>100,913</u>	<u>3,380</u>	<u>12,791</u>	<u>1,140,362</u>
Total liabilities	<u>12,190,043</u>	<u>2,144,640</u>	<u>4,531,414</u>	<u>138,516</u>	<u>71,528</u>	<u>19,076,141</u>
Fund balance						
Nonspendable	195,123	55,559	30,971	87,253	625	369,531
Restricted	5,743,856	-	-	-	257,974	6,001,830
Unassigned	<u>(1,756,903)</u>	<u>(1,172,665)</u>	<u>(4,203,892)</u>	<u>(78,363)</u>	<u>(14,064)</u>	<u>(7,225,887)</u>
Total fund balance	<u>4,182,076</u>	<u>(1,117,106)</u>	<u>(4,172,921)</u>	<u>8,890</u>	<u>244,535</u>	<u>(854,526)</u>
Total liabilities and fund balance	<u>\$ 16,372,119</u>	<u>\$ 1,027,534</u>	<u>\$ 358,493</u>	<u>\$ 147,406</u>	<u>\$ 316,063</u>	<u>\$ 18,221,615</u>

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

Fund balances reported above	\$ (854,526)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,743,946
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(118,759)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	10,934,076
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>(71,877,026)</u>
Net position of governmental activities	<u>\$ (27,172,289)</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, 2021

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 1,593,075	\$ -	\$ -	\$ -	\$ 198,944	\$ 1,792,019
Licenses and permits	8,402,999	-	-	-	-	8,402,999
Fines and forfeits	120,235	-	-	-	-	120,235
Charges for services	163,383	3,510,087	1,495,630	898,906	-	6,068,006
Intergovernmental	1,609,868	1,468,399	-	-	250,817	3,329,084
Interest income	43,370	1,018	421	192	926	45,927
Other revenues	1,460,113	41,319	47,243	-	1,722	1,550,397
Total revenues	13,393,043	5,020,823	1,543,294	899,098	452,409	21,308,667
EXPENDITURES						
Current:						
General administration	4,349,849	-	-	-	-	4,349,849
Public safety	9,266,194	-	-	-	-	9,266,194
Public services	204,178	-	-	-	-	204,178
Streets	1,112,815	-	-	-	57,150	1,169,965
Parks and recreation	1,128,436	-	-	-	-	1,128,436
Emergency medical services	-	5,221,084	-	-	-	5,221,084
Cemetery	130,337	-	-	-	-	130,337
Waterpark	-	-	1,611,397	-	-	1,611,397
Fuel center	-	-	-	928,197	-	928,197
Travel and tourism	-	-	-	-	147,519	147,519
Downtown revitalization	163,152	-	-	-	-	163,152
Intergovernmental programs	102,482	-	-	-	-	102,482
Capital outlay	3,227,972	843,320	-	-	140,172	4,211,464
Debt service	10,660,224	50,103	155,250	-	-	10,865,577
Bond issuance cost	353,845	-	-	-	-	353,845
Total expenditures	30,699,484	6,114,507	1,766,647	928,197	344,841	39,853,676
Excess (deficiency) of revenues over expenditures	(17,306,441)	(1,093,684)	(223,353)	(29,099)	107,568	(18,545,009)
OTHER FINANCING SOURCES (USES)						
Proceeds from issuance of debt	14,937,883	360,731	-	-	-	15,298,614
Proceeds from bond premium	765,879	-	-	-	-	765,879
Proceeds from sale of assets	2,751	-	-	-	-	2,751
Transfers in (out)	4,441,813	1,750,000	335,660	-	8,186	6,535,659
Total other financing sources and uses	20,148,326	2,110,731	335,660	-	8,186	22,602,903
Net change in fund balances	2,841,885	1,017,047	112,307	(29,099)	115,754	4,057,894
Fund balance-beginning	1,340,191	(2,134,153)	(4,285,228)	37,989	128,781	(4,912,420)
Fund balance-ending	\$ 4,182,076	\$ (1,117,106)	\$ (4,172,921)	\$ 8,890	\$ 244,535	\$ (854,526)

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ 4,057,894
add: capital outlay expenditures capitalized	4,211,464
add: contributed capital	100,000
add: debt service expenditures	10,865,577
add: capital asset transfers from business-type activities	31,052
less: proceeds from sale of assets	(2,751)
less: loss from disposal of assets	(405,831)
less: proceeds from issuance of debt	(15,298,614)
less: proceeds from bond premium	(765,879)
less: depreciation on governmental activities assets	(2,206,499)
less: change in net pension liability	(4,392,951)
less: change in net OPEB liability	(1,149,871)
less: interest on long term debt	(457,971)

Change in net position Governmental Activities \$ (5,414,380)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2021

	Business-type Activities				
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ 876,199	\$ 1,939,296	\$ 1,740,963	\$ 477,533	\$ 5,033,991
Certificates of deposit	-	1,259,830	2,800,133	600,079	4,660,042
Investments	244,483	244,483	-	-	488,966
Receivables, net	500,816	719,548	612,920	398,193	2,231,477
Accrued interest receivable	-	39	368	48	455
Inventories	247,682	378,197	48,193	5,556	679,628
Prepaid expenses	28,984	27,856	21,252	16,621	94,713
Due from other funds	<u>4,065,591</u>	<u>6,469,932</u>	<u>82,970</u>	<u>1,237,071</u>	<u>11,855,564</u>
Total current assets	<u>5,963,755</u>	<u>11,039,181</u>	<u>5,306,799</u>	<u>2,735,101</u>	<u>25,044,836</u>
Noncurrent assets					
Restricted cash and cash equivalents	-	669,074	147,000	-	816,074
Excess cost over market value of assets acquired, net	-	42,171	-	-	42,171
Capital assets					
Nondepreciable capital assets	251,391	1,007,260	672,178	452,209	2,383,038
Depreciable capital assets	28,015,372	71,162,622	46,449,530	3,821,949	149,449,473
Less accumulated depreciation	<u>(20,720,978)</u>	<u>(24,601,456)</u>	<u>(22,320,990)</u>	<u>(2,087,064)</u>	<u>(69,730,488)</u>
Total noncurrent assets	<u>7,545,785</u>	<u>48,279,671</u>	<u>24,947,718</u>	<u>2,187,094</u>	<u>82,960,268</u>
Total assets	<u>13,509,540</u>	<u>59,318,852</u>	<u>30,254,517</u>	<u>4,922,195</u>	<u>108,005,104</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pension	439,049	465,005	293,371	339,835	1,537,260
Deferred outflows - OPEB	<u>398,700</u>	<u>422,270</u>	<u>266,410</u>	<u>308,604</u>	<u>1,395,984</u>
Total deferred outflows of resources	<u>837,749</u>	<u>887,275</u>	<u>559,781</u>	<u>648,439</u>	<u>2,933,244</u>
Total assets and deferred outflows of resources	<u>\$ 14,347,289</u>	<u>\$ 60,206,127</u>	<u>\$ 30,814,298</u>	<u>\$ 5,570,634</u>	<u>\$ 110,938,348</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 255,507	\$ 132,928	\$ 190,010	\$ 136,814	\$ 715,259
Due to other funds	4,293	3,046	4,308	674	12,321
Accrued interest payable	4,173	133,799	14,146	975	153,093
Other current liabilities	273,095	125,931	71,051	80,777	550,854
Current portion of long-term debt	<u>90,240</u>	<u>562,677</u>	<u>640,017</u>	<u>1,088,031</u>	<u>2,380,965</u>
Total current liabilities	<u>627,308</u>	<u>958,381</u>	<u>919,532</u>	<u>1,307,271</u>	<u>3,812,492</u>
Noncurrent liabilities					
Notes payable	91,497	222,490	5,114,399	178,086	5,606,472
Bonds payable	583,206	15,433,748	3,897,773	-	19,914,727
Net pension liability	2,803,276	2,969,003	1,873,142	2,169,809	9,815,230
Net OPEB liability	<u>882,535</u>	<u>934,710</u>	<u>589,708</u>	<u>683,105</u>	<u>3,090,058</u>
Total noncurrent liabilities	<u>4,360,514</u>	<u>19,559,951</u>	<u>11,475,022</u>	<u>3,031,000</u>	<u>38,426,487</u>
Total liabilities	<u>4,987,822</u>	<u>20,518,332</u>	<u>12,394,554</u>	<u>4,338,271</u>	<u>42,238,979</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension	77,945	82,553	52,083	60,330	272,911
Deferred inflows - OPEB	<u>190,950</u>	<u>202,238</u>	<u>127,591</u>	<u>147,800</u>	<u>668,579</u>
Total deferred inflows of resources	<u>268,895</u>	<u>284,791</u>	<u>179,674</u>	<u>208,130</u>	<u>941,490</u>
NET POSITION					
Net investment in capital assets	6,780,842	31,391,682	15,148,529	920,977	54,242,030
Restricted for debt service	-	669,074	147,000	-	816,074
Unrestricted	<u>2,309,730</u>	<u>7,342,248</u>	<u>2,944,541</u>	<u>103,256</u>	<u>12,699,775</u>
Total net position	<u>9,090,572</u>	<u>39,403,004</u>	<u>18,240,070</u>	<u>1,024,233</u>	<u>67,757,879</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,347,289</u>	<u>\$ 60,206,127</u>	<u>\$ 30,814,298</u>	<u>\$ 5,570,634</u>	<u>\$ 110,938,348</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, 2021

	Business-type Activities				Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	
Operating revenues					
Sales to customers	\$ 8,769,617	\$ 7,248,554	\$ 2,731,044	\$ 3,680,186	\$ 22,429,401
Transportation/surcharges	864,626	90,647	17,147	-	972,420
Other operating revenues	313,190	9,220	523,426	45,417	891,253
Total operating revenues	9,947,433	7,348,421	3,271,617	3,725,603	24,293,074
Operating expenses					
Gas purchases, net of refunds	3,376,402	-	-	-	3,376,402
Operating expenses	2,983,836	3,983,603	2,048,657	3,443,092	12,459,188
Maintenance	603,243	341,369	432,681	177,784	1,555,077
Depreciation	470,042	1,532,380	1,070,862	300,842	3,374,126
Amortization	-	9,022	-	-	9,022
Total operating expenses	7,433,523	5,866,374	3,552,200	3,921,718	20,773,815
Operating income (loss)	2,513,910	1,482,047	(280,583)	(196,115)	3,519,259
Nonoperating revenues (expenses)					
Gain (loss) on disposal of capital assets	-	21,459	-	148,869	170,328
Interest and investment income (loss)	(3,487)	18,700	28,935	7,524	51,672
Interest expense	(29,189)	(431,372)	(162,576)	(23,112)	(646,249)
Bond issuance cost	-	(74,682)	(75,946)	-	(150,628)
Total nonoperating revenues (expenses)	(32,676)	(465,895)	(209,587)	133,281	(574,877)
Income (loss) before capital contributions and transfers	2,481,234	1,016,152	(490,170)	(62,834)	2,944,382
Capital contributed - Grants	883,478	1,166,798	1,003,116	-	3,053,392
Transfers in (out)	(3,502,700)	(2,090,835)	(37,516)	(935,660)	(6,566,711)
Change in net position	(137,988)	92,115	475,430	(998,494)	(568,937)
Total net position-beginning	9,228,560	39,310,889	17,764,640	2,022,727	68,326,816
TOTAL NET POSITION-ENDING	\$ 9,090,572	\$ 39,403,004	\$ 18,240,070	\$ 1,024,233	\$ 67,757,879

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, 2021

	Business-type Activities				
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 9,667,986	\$ 7,316,928	\$ 2,470,380	\$ 3,714,878	\$ 23,170,172
Cash payments to suppliers for goods and services	(4,992,349)	(2,215,615)	(967,737)	(2,047,528)	(10,223,229)
Cash payments to employees	(1,765,887)	(1,866,151)	(1,192,029)	(1,350,563)	(6,174,630)
Other operating revenues	313,190	9,220	523,426	45,417	891,253
Net cash provided by operating activities	3,222,940	3,244,382	834,040	362,204	7,663,566
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Receipts (payments) on interfund loans	168,795	116,279	(320,606)	725,331	689,799
Transfers (to) from other funds	(3,493,901)	(2,093,897)	-	(935,660)	(6,523,458)
Net cash provided (used) by non-capital financing activities	(3,325,106)	(1,977,618)	(320,606)	(210,329)	(5,833,659)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds and notes	(85,902)	(4,122,865)	(2,077,822)	(292,258)	(6,578,847)
Interest paid on bonds and notes	(29,409)	(345,201)	(162,132)	(23,021)	(559,763)
Bond issuance costs paid on bonds	-	(74,682)	(75,946)	-	(150,628)
Proceeds from issuance of debt	27,818	3,909,051	3,048,551	564,331	7,549,751
Acquisition and construction of capital assets	(941,627)	(1,854,720)	(821,608)	(978,075)	(4,596,030)
Capital contributed - Grants	883,478	1,166,798	1,003,116	-	3,053,392
Proceeds from sale of assets	-	61,663	-	571,350	633,013
Net cash provided (used) by capital and related financing activities	(145,642)	(1,259,956)	914,159	(157,673)	(649,112)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	(3,460)	18,916	29,938	7,731	53,125
Net cash provided (used) by investing activities	(3,460)	18,916	29,938	7,731	53,125
Net increase (decrease) in cash and cash equivalents	(251,268)	25,724	1,457,531	1,933	1,233,920
Balances-beginning of the year	1,127,467	2,582,646	430,432	475,600	4,616,145
BALANCES-END OF THE YEAR	\$ 876,199	\$ 2,608,370	\$ 1,887,963	\$ 477,533	\$ 5,850,065
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss):	\$ 2,513,910	\$ 1,482,047	\$ (280,583)	\$ (196,115)	\$ 3,519,259
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	470,042	1,532,380	1,070,862	300,842	3,374,126
Amortization expense	-	9,022	-	-	9,022
Net pension liability activity	120,642	227,558	143,260	165,169	656,629
Net OPEB liability activity	12,851	42,063	26,449	30,417	111,780
Change in assets and liabilities:					
Receivables, net	12,797	(22,273)	(277,811)	37,192	(250,095)
Note receivable	20,946	-	-	-	20,946
Inventory	52,048	1,957	1,954	1,128	57,087
Prepaid expenses	625	(1,426)	696	(1,193)	(1,298)
Accounts payable	(132,072)	(46,764)	142,163	12,928	(23,745)
Other liabilities	151,151	19,818	7,050	14,336	192,355
Unearned revenue	-	-	-	(2,500)	(2,500)
Net cash provided by operating activities	\$ 3,222,940	\$ 3,244,382	\$ 834,040	\$ 362,204	\$ 7,663,566
Supplemental disclosure of cash flow information:					
Noncash capital and related financing activities:					
Capital assets acquired by capital lease	\$ -	\$ -	\$ -	\$ 159,981	\$ 159,981
Payables for capital items, net	\$ 14,995	\$ 23,929	\$ (14,090)	\$ -	\$ 24,834

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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 has been dissolved and Somerset-Pulaski Development Authority (SPEDA) was newly formed in place of the former foundation. SPEDA 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, 2021

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 and parks and recreation.

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 City 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, 2021

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, sanitation and fuel center 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, 2021

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. For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City Council.

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.

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	\$ 23,612	\$ -	\$ 27,764	\$ 86,628	\$ -	\$ 138,004
Prepays	171,511	55,559	3,207	625	625	231,527
Restricted						
Debt service	395,220	-	-	-	-	395,220
Construction	5,032,166	-	-	-	-	5,032,166
Other	316,470	-	-	-	-	316,470
Road repair	-	-	-	-	117,542	117,542
Tourism	-	-	-	-	140,432	140,432
Unassigned	<u>(1,756,903)</u>	<u>(1,172,665)</u>	<u>(4,203,892)</u>	<u>(78,363)</u>	<u>(14,064)</u>	<u>(7,225,887)</u>
Total	<u>\$ 4,182,076</u>	<u>\$(1,117,106)</u>	<u>\$ (4,172,921)</u>	<u>\$ 8,890</u>	<u>\$ 244,535</u>	<u>\$ (854,526)</u>

As of June 30, 2021, the following nonmajor fund reported a deficit in fund balance:

Coal & Mineral Severance Fund	\$ (14,064)
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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, 2021

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/expense 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, 2021

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.

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. New Authoritative Accounting Guidance Pending Adoption

The Governmental Accounting Standards Board (GASB) issued Statement No. 87 *Leases* which requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB Statement No. 87 *Leases* will be effective for governmental entities with fiscal years beginning after June 15, 2021. At this time, the City has not determined the impact of this update on its financial statements; however the City anticipates recording a significant amount of right-of-use assets and related lease liabilities when this standard is implemented.

K. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 30, 2021, 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, 2021, have not been evaluated by the City.

2. CASH AND INVESTMENTS

Custodial Credit Risks – Deposits

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

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2021 are as follows:

Carrying amount	\$ 20,635,482
Bank balance	\$ 20,838,367
FDIC Insurance	\$ 2,612,979
Bank Deposit Guaranty Bond	\$ 671,626
Invested in Federal Obligations	\$ 6,494,534
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	\$ 11,059,228
Uninsured and uncollateralized	\$ -

Investments

As of June 30, 2021, the City had a total of \$488,966 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts Receivable

Account receivables at June 30, 2021 for all funds of the City are as follows:

	Accounts	Taxes	Licenses & Permits	Intergov.	Other	Allowance	Total
General Fund	\$ 145,169	\$ 26,863	\$ 1,598,453	\$ 79,969	\$ 216,558	\$ (142,494)	\$ 1,924,518
EMS Fund	1,166,615	-	-	-	1,121	(518,479)	649,257
Waterpark	23,635	-	-	-	-	-	23,635
Fuel Center	-	-	-	-	18,579	-	18,579
Other Gov.	-	24,497	-	33,423	-	-	57,920
Gas	379,461	-	-	11,824	109,531	-	500,816
Water	676,839	-	-	42,709	-	-	719,548
Wastewater	309,678	-	-	135,318	167,924	-	612,920
Sanitation	398,193	-	-	-	-	-	398,193
Totals	<u>\$ 3,099,590</u>	<u>\$ 51,360</u>	<u>\$ 1,598,453</u>	<u>\$ 303,243</u>	<u>\$ 513,713</u>	<u>\$ (660,973)</u>	<u>\$ 4,905,386</u>

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, 2021 are as follows:

Receivable Fund	Payable Fund	Amount
Fuel Center Fund	Gas Department	\$ 4,293
Fuel Center Fund	Water Department	3,046
Fuel Center Fund	Wastewater Department	2,631
Gas Department	General Fund	(4,065,041)
Water Department	General Fund	(5,168,245)
Water Department	Waterpark	(1,300,000)
Sanitation Department	Fuel Center	(47,655)
Sewer Department	General Fund	(82,969)
Sanitation Department	General Fund	<u>(1,189,303)</u>
Internal balances, net		<u>\$ (11,843,243)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2021 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	EMS Fund	\$ 1,868,314
General Fund	Coal & Mineral Severance	\$ 40,000
General Fund	Waterpark	\$ 3,055,967
General Fund	Fuel Center	\$ 53,449
General Fund	Tourism & Travel	\$ 17,520
Fuel Center Fund	Waterpark	\$ 601
Fuel Center Fund	Travel and Tourism	\$ 75
Fuel Center Fund	EMS Fund	\$ 6,385

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, 2021

5. CAPITAL ASSETS

A summary of changes in the City's capital assets during the year ended June 30, 2021, is as follows:

	June 30, 2020	Additions/ Transfers	Disposals/ Transfers	June 30, 2021
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 3,356,941	\$ 651,862	\$ -	\$ 4,008,803
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>1,545,876</u>	<u>382,818</u>	<u>(1,540,876)</u>	<u>387,818</u>
Totals	<u>4,913,885</u>	<u>1,034,680</u>	<u>(1,540,876)</u>	<u>4,407,689</u>
Capital assets that are depreciated:				
Infrastructure	36,835,895	445,329	-	37,281,224
Building and improvements	18,613,568	1,964,320	(400,144)	20,177,744
Vehicles	5,239,500	1,948,296	3,358	7,191,154
Equipment	2,614,819	384,726	(205,472)	2,794,073
Office equipment	1,009,686	-	19,414	1,029,100
Land improvements	<u>1,359,137</u>	<u>74,987</u>	<u>-</u>	<u>1,434,124</u>
Totals	<u>65,672,605</u>	<u>4,817,658</u>	<u>(582,844)</u>	<u>69,907,419</u>
Total capital assets	<u>70,586,490</u>	<u>5,852,338</u>	<u>(2,123,720)</u>	<u>74,315,108</u>
Accumulated depreciation:				
Infrastructure	24,198,869	1,092,437	-	25,291,306
Buildings and improvements	4,825,211	543,920	(1,459)	5,367,672
Vehicles	4,089,261	322,859	10,552	4,422,672
Equipment	2,362,949	165,301	(214,408)	2,313,842
Office equipment	1,009,415	9,017	-	1,018,432
Land improvements	<u>1,084,273</u>	<u>72,965</u>	<u>-</u>	<u>1,157,238</u>
Totals	<u>37,569,978</u>	<u>2,206,499</u>	<u>(205,315)</u>	<u>39,571,162</u>
Capital Assets, Net	<u>\$ 33,016,512</u>	<u>\$ 3,645,839</u>	<u>\$ (1,918,405)</u>	<u>\$ 34,743,946</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

5. CAPITAL ASSETS (CONTINUED)

	June 30, 2020	Additions/ Transfers	Disposals/ Transfers	June 30, 2021
Business-type Activities				
Capital assets not depreciated:				
Land	\$ 979,933	\$ -	\$ -	\$ 979,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>592,476</u>	<u>943,802</u>	<u>(280,195)</u>	<u>1,256,083</u>
Totals	<u>1,719,431</u>	<u>943,802</u>	<u>(280,195)</u>	<u>2,383,038</u>
Capital assets that are depreciated:				
Utility plant and dist. system	88,734,439	2,777,058	-	91,511,497
Building and improvements	49,649,038	-	-	49,649,038
Vehicles	3,498,314	806,465	(615,277)	3,689,502
Equipment	3,135,905	572,451	(138,306)	3,570,050
Office equipment	915,159	-	-	915,159
Land improvements	<u>114,227</u>	<u>-</u>	<u>-</u>	<u>114,227</u>
Totals	<u>146,047,082</u>	<u>4,155,974</u>	<u>(753,583)</u>	<u>149,449,473</u>
Total capital assets	<u>147,766,513</u>	<u>5,099,776</u>	<u>(1,033,778)</u>	<u>151,832,511</u>
Accumulated depreciation:				
Utility plant and dist. system	46,213,183	1,858,279	-	48,071,462
Buildings and improvements	15,298,338	996,389	-	16,294,727
Vehicles	2,087,964	325,425	(159,317)	2,254,072
Equipment	2,505,624	170,691	(61,790)	2,614,525
Office equipment	426,004	20,525	-	446,529
Land improvements	<u>46,356</u>	<u>2,817</u>	<u>-</u>	<u>49,173</u>
Totals	<u>66,577,469</u>	<u>3,374,126</u>	<u>(221,107)</u>	<u>69,730,488</u>
Capital Assets, Net	<u>\$ 81,189,044</u>	<u>\$ 1,725,650</u>	<u>\$ (812,671)</u>	<u>\$ 82,102,023</u>

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

Primary Government

Governmental Activities

Waterpark	\$ 679,897
Streets	591,222
Public Safety	235,557
General Government	369,628
Emergency Medical Services	126,376
Parks and Recreation	168,226
Fuel Center	28,497
Cemetery	3,338
Travel & Tourism	<u>3,758</u>
	<u>\$ 2,206,499</u>

Business-Type Activities

Water	\$ 1,532,380
Wastewater	1,070,862
Gas	470,042
Sanitation	<u>300,842</u>
	<u>\$ 3,374,126</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2021:

Description	Balance June 30, 2020	Issued	Retired	June 30, 2021	Due within One year
Primary Government					
<u>Governmental Activities</u>					
<u>General Fund</u>					
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 4,281,957	\$ -	\$ 288,100	\$ 3,993,857	\$ 296,573
Series 2015A with interest at 3.25% maturing in fiscal year 2054	8,034,000	-	8,034,000	-	-
Series 2015B with interest at 3.25% maturing in fiscal year 2054	587,018	-	587,018	-	-
Direct Borrowing - Street sweeper loan with interest at 3.50% maturing in fiscal year 2023	81,931	-	37,034	44,897	38,369
Direct Borrowing - Cundiff Square loan with interest at 3.25% maturing in fiscal year 2027	1,000,000	-	1,000,000	-	-
Series 2021 with interest at 2.00% -5.00% maturing in fiscal year 2041	-	5,580,000	-	5,580,000	323,000
Series 2021 Bond Premium	-	476,555	-	476,555	23,828
Series 2020 with interest at 2.00% - 3.00% maturing in fiscal year 2045	-	8,575,000	215,000	8,360,000	260,000
Series 2020 Bond Premium	-	289,324	14,466	274,858	14,466
Direct Borrowing - Police car loan with interest at 2.00% - 3.00% maturing in fiscal year 2026	-	202,979	9,670	193,309	39,195
Direct Borrowing - Cinder pumper loan with interest at 2.31% maturing in fiscal year 2031	-	579,904	25,906	553,998	52,692
<u>EMS</u>					
Direct Borrowing - Ambulance loan with interest at 4.15% maturing in fiscal year 2023	76,062	-	24,369	51,693	25,415
Direct Borrowing - Ambulance loan with interest at 2.31% maturing in fiscal year 2026	-	162,551	20,544	142,007	31,478
Direct Borrowing - Equipment loan with interest at 2.31% maturing in fiscal year 2026	-	198,180	-	198,180	66,060
<u>Waterpark</u>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	<u>1,473,715</u>	<u>-</u>	<u>99,155</u>	<u>1,374,560</u>	<u>102,072</u>
Net pension liability	<u>32,698,505</u>	<u>6,006,600</u>	<u>-</u>	<u>38,705,105</u>	<u>-</u>
Net OPEB liability	<u>8,536,344</u>	<u>3,391,663</u>	<u>-</u>	<u>11,928,007</u>	<u>-</u>
Total governmental activities	<u>\$ 56,769,532</u>	<u>\$ 25,462,756</u>	<u>\$ 10,355,262</u>	<u>\$ 71,877,026</u>	<u>\$ 1,273,148</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

Description	Balance June 30, 2020	Issued	Retired	June 30, 2021	Due within One year
<u>Business-type Activities</u>					
Gas Department					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	\$ 675,986	\$ -	\$ 45,900	\$ 630,086	\$ 46,880
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0% maturing in FY 2034	24,180	-	1,586	22,594	1,620
Direct Borrowing - Note payable to local bank with interest at 2.48%, maturing in fiscal year 2026	-	27,818	3,069	24,749	5,365
Direct Borrowing - Cumberland Security loan with interest at 2.85%, maturing in FY 2024	84,129	-	24,395	59,734	25,109
Direct Borrowing - Cumberland Security loan with interest at 2.79%, maturing in FY 2024	<u>38,733</u>	<u>-</u>	<u>10,953</u>	<u>27,780</u>	<u>11,266</u>
Total Gas Department	<u>\$ 823,028</u>	<u>\$ 27,818</u>	<u>\$ 85,903</u>	<u>\$ 764,943</u>	<u>\$ 90,240</u>
Water Department					
Series 2012A with interest at 2.125% maturing in fiscal year 2052	\$ 8,054,500	\$ -	\$ 171,000	\$ 7,883,500	\$ 175,000
Series 2012B with interest at 2.125% maturing in fiscal year 2052	4,474,500	-	95,000	4,379,500	97,000
Direct Borrowing - Cumberland Valley Note with interest at 2.5%, maturing in FY 2022	140,668	-	93,467	47,201	47,201
Direct Borrowing - Kentucky Rur. Water note with interest at 2.15% to 4.525%, maturing in FY 2036	3,710,000	-	3,710,000	-	-
Direct Borrowing - Citizens National Bank loan with interest at 2.75%, maturing in FY 2024	25,040	-	6,739	18,301	6,929
Direct Borrowing - Cumberland Security Bank loan with interest at 3.79% maturing in FY 2024	28,020	-	7,255	20,765	7,539
Series 2021 with interest at 2.00-5.00% maturing in fiscal year 2041	-	3,296,000	-	3,296,000	156,000
Series 2021 Bond Premium	\$ -	\$ 318,682	\$ -	\$ 318,682	\$ 15,934

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities, continued

Water Department, continued

Description	June 30, 2020	Issued	Retired	June 30, 2021	Due within One year
Direct Borrowing - Citizens National Bank loan with interest at 2.35%, maturing in FY 2026	\$ -	\$ 240,426	\$ 34,276	\$ 206,150	\$ 46,648
Direct Borrowing - Monticello Bank loan with interest at 2.50% – 5.00% maturing in FY 2026	-	53,943	5,127	48,816	10,426
Total Water Department	<u>\$ 16,432,728</u>	<u>\$ 3,909,051</u>	<u>\$4,122,864</u>	<u>\$ 16,218,915</u>	<u>\$ 562,677</u>

Wastewater Department

Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 1,149,175	\$ -	\$ 76,500	\$ 1,072,675	\$ 79,476
Direct Borrowing - KIA Loan with interest at 1%, maturing in fiscal year 2032	5,669,224	-	394,265	5,274,959	398,217
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0%, maturing in FY 2034	273,990	-	17,986	256,004	18,347
Series 2021 GO with interest at 2.0%-5.0%, maturing in fiscal year 2041	-	2,789,000	-	2,789,000	131,000
Series 2021 Bond Premium	-	259,551	-	259,551	12,977
Direct Borrowing - Note payable to local bank with interest at at 3.25%, adjusting after 60 months to Prime Rate, maturing in fiscal year 2035	1,589,071	-	1,589,071	-	-
Total Wastewater Department	<u>\$ 8,681,460</u>	<u>\$ 3,048,551</u>	<u>\$ 2,077,822</u>	<u>\$ 9,652,189</u>	<u>\$ 640,017</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities, continued

Description	June 30, 2020	Issued	Retired	June 30, 2021	Due within One year
Sanitation Department					
Direct Borrowing - Cumberland Valley National Bank loan with interest at 2.98%, maturing in fiscal year 2021	\$ 29,551	\$ -	\$ 29,551	\$ -	\$ -
Direct Borrowing - Cumberland Valley National Bank loan with interest at 3.5%, maturing in fiscal year 2023	136,855	-	55,232	81,623	57,196
Direct Borrowing - Note payable to local bank with interest at 3.85%, maturing in FY 2024	106,390	-	28,931	77,459	30,081
Direct Borrowing - Citizens National Bank loan with interest at 2.36%, maturing in FY 2026	-	156,334	19,784	136,550	30,269
Direct Borrowing - Magnolia Bank loan with interest at 3.75%, maturing in fiscal year 2022	-	407,997	-	407,997	407,997
Direct Borrowing - KACO Leasing Trust loan with interest at 2.12%, maturing in fiscal year 2022	-	159,981	-	159,981	159,981
Direct Borrowing - Magnolia Bank loan with interest at 2.15%, maturing in fiscal year 2022	242,526	-	-	242,526	242,526
Direct Borrowing - Magnolia Bank loan with interest at 2.12%, maturing in fiscal year 2022	159,981	-	-	159,981	159,981
Direct Borrowing - KACO Leasing Trust loan with interest at 3.99%, maturing in fiscal year 2021	<u>158,760</u>	<u>-</u>	<u>158,760</u>	<u>-</u>	<u>-</u>
Total Sanitation Department	<u>834,063</u>	<u>724,312</u>	<u>292,258</u>	<u>1,266,117</u>	<u>1,088,031</u>
Net pension liability	<u>9,383,932</u>	<u>431,298</u>	<u>-</u>	<u>9,815,230</u>	<u>-</u>
Net OPEB liability	<u>2,243,819</u>	<u>846,239</u>	<u>-</u>	<u>3,090,058</u>	<u>-</u>
Total Business-type activities	<u>\$ 38,399,030</u>	<u>\$ 8,987,269</u>	<u>\$ 6,578,847</u>	<u>\$ 40,807,452</u>	<u>\$ 2,380,965</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

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	\$ 3,993,856
Waterpark	1,374,561
Gas department	630,087
Wastewater department	<u>1,072,675</u>
Total	<u>\$ 7,071,179</u>

The Series 2021 GO Bond issue is dated June 17, 2021 in the amount of \$11,665,000 and carries a interest rate of 2.00% to 5.00%. The issue was intended to benefit the general fund, water department, wastewater department and to be determined future capital projects. The issue is included on the statement of net position under long-term debt as follows:

General	\$ 5,580,000
Water department	3,296,000
Wastewater department	<u>2,789,000</u>
Total	<u>\$ 11,665,000</u>

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

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
2022	\$ 1,234,854	\$ 591,169	\$ 1,826,023
2023	1,238,873	556,177	1,795,050
2024	1,244,077	516,029	1,760,106
2025	1,219,136	474,370	1,693,506
2026	1,232,239	431,316	1,663,555
2027-2031	5,939,251	1,493,492	7,432,743
2032-2036	3,498,071	696,464	4,194,535
2037-2041	3,191,000	381,900	3,572,900
2042-2046	<u>1,695,000</u>	<u>94,160</u>	<u>1,789,160</u>
	<u>\$ 20,492,501</u>	<u>\$ 5,235,077</u>	<u>\$ 25,727,578</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities

Year ended	Principal	Interest	Total
2022	\$ 2,380,965	\$ 616,895	\$ 2,997,860
2023	1,301,531	625,092	1,926,623
2024	1,290,164	559,334	1,849,498
2025	1,281,369	529,416	1,810,785
2026	1,240,719	476,976	1,717,695
2027-2031	6,559,207	1,748,673	8,307,880
2032-2036	5,171,477	1,111,478	6,282,955
2037-2041	2,705,000	735,294	3,440,294
2042-2046	2,283,500	478,306	2,761,806
2047-2051	2,567,000	208,614	2,775,614
2052-2055	<u>543,000</u>	<u>11,539</u>	<u>554,539</u>
	<u>\$ 27,323,932</u>	<u>\$ 7,101,617</u>	<u>\$ 34,425,549</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, 2021 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2021, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

7. RETIREMENT PLAN

CERS

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

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

Contributions – For the year ended June 30, 2021, 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. RETIREMENT PLAN (CONTINUED)

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2021, 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 19.30% 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.

For the year ended June 30, 2021, the City contributed \$1,255,663 or 100% of the required contribution for non-hazardous job classifications, and \$1,867,445, for the year ended June 30, 2021, or 100% of the required contribution for hazardous job classifications.

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old and 4 years service
	Reduced retirement	At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+
	Reduced retirement	Not available

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. RETIREMENT PLAN (CONTINUED)

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, 2021, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ 48,520,335	\$ 17,968,238	\$ 30,552,097

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, 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, 2020, was as follows:

Non-hazardous	Hazardous
.234%	1.013%

The proportionate share at June 30, 2020 relative to June 30, 2019 decreased for non-hazardous by .009% and increased for hazardous by .108%.

For the year ended June 30, 2021, the City recognized pension expense of \$8,133,232. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 1,395,611	\$ -
Changes of assumptions	1,860,336	-
Net difference between projected and actual earnings on Plan investments	1,137,899	-
Changes in proportion and differences between City contributions and proportionate share of contributions	2,103,355	514,240
City contributions subsequent to the measurement date	<u>3,078,856</u>	<u>-</u>
Total	<u>\$ 9,576,057</u>	<u>\$ 514,240</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. RETIREMENT PLAN (CONTINUED)

The \$3,078,856 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2022	\$ 2,329,355
2023	\$ 1,623,123
2024	\$ 1,274,085
2025	\$ 756,398

Actuarial Assumptions – The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.30% 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 2020. 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, 2019, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2019) to the plan's fiscal year ending June 30, 2020. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

7. RETIREMENT PLAN (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		<u>2.30%</u>
Expected nominal return for portfolio		6.25%

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. 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 23-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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

	Non-hazardous			Hazardous		
		City's proportionate share of net pension liability			City's proportionate share of net pension liability	
1% decrease	5.25%	\$ 22,158,748		5.25%	\$ 37,758,041	
Current discount rate	6.25%	\$ 17,968,238		6.25%	\$ 30,552,097	
1% increase	7.25%	\$ 14,498,337		7.25%	\$ 24,670,142	

Payable to the Pension Plan – At June 30, 2021, the City reported a payable of \$505,680 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021. The payable includes both the pension and insurance contribution allocation.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021, 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.

For the year ended June 30, 2021, the City contributed \$309,687, or 100% of the required contribution for non-hazardous job classifications, and \$591,420, or 100% of the required contribution for hazardous job classifications.

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

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

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources — At June 30, 2021, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 15,018,065</u>	<u>\$ 5,656,811</u>	<u>\$ 9,361,254</u>

The net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 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, 2020 was as follows:

Non-hazardous	Hazardous
.234%	1.013%

The proportionate share at June 30, 2020 relative to June 30, 2019 for non-hazardous decreased by .009% and hazardous increased by .108%.

For the year ended June 30, 2021, the City recognized OPEB expense of \$2,377,779. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 1,266,376	\$ 1,880,697
Changes of assumptions	2,511,128	14,610
Net difference between projected and actual earnings on Plan investments	603,564	-
Changes in proportion and differences between City contributions and proportionate share of contributions	608,240	302,758
City contributions subsequent to the measurement date	<u>1,072,770</u>	<u>-</u>
Total	<u>\$ 6,062,078</u>	<u>\$ 2,198,065</u>

The \$1,072,770 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, 2022. This includes adjustments of \$138,830 for the nonhazardous implicit subsidy and \$43,990 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2022	732,624
2023	560,949
2024	649,187
2025	620,436
2026	228,047

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Actuarial Assumptions – The total OPEB liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.30 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 6.40% at January 1, 2022, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years.
Post – 65:	Initial trend starting at 2.90% at January 1, 2022, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years

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, 2019, 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, 2019) to the plan's fiscal year ending June 30, 2020.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special credit/high yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Total	100.00%	3.96%
Long term inflation assumption		<u>2.30%</u>
Expected nominal return for portfolio		<u>6.25%</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.34% and 5.30% 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 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net OPEB liability	Discount rate	City's proportionate share of net OPEB liability
1% decrease	4.34%	\$ 7,267,342	4.30%	\$ 12,707,658
Current discount rate	5.34%	\$ 5,656,811	5.30%	\$ 9,361,254
1% increase	6.34%	\$ 4,334,029	6.30%	\$ 6,664,731

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		\$ 4,379,786		\$ 6,689,827
Current trend rate		\$ 5,656,811		\$ 9,361,254
1% increase		\$ 7,206,512		\$ 12,645,544

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

9. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2021 were levied in September 2020 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.

10. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
EMS	General	Administration	\$ 50,000
Gas	General	General operations	\$ 2,900,000
Gas	EMS	General operations	\$ 600,000
Water	EMS	General operations	\$ 600,000
Water	General	General operations	\$ 1,500,000
Sanitation	EMS	General operations	\$ 600,000
Sanitation	Water Park	General operations	\$ 335,660

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, 2021, are summarized below:

Governmental Activities

2022	\$ 273,082
2023	120,617
2024	53,134
2025	9,283
2026	<u>8,509</u>
Total	<u>\$ 464,625</u>

Business-type Activities

2022	\$ 150,744
2023	67,705
2024	12,648
2025	9,396
2026	<u>8,613</u>
Total	<u>\$ 249,106</u>

Lease expense for June 30, 2021, was \$308,614 and \$177,092 for the governmental activities and the business-type activities, respectively.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

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, 2021, 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

During 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 October 29, 2021, the City issued \$6,769,000 of General Obligation Bonds Refunding Bonds, Series 2021. The bonds were issued to refund General Obligation Bonds, Series 2011. The refunding reduces debt service payments by \$409,495 and has a net economic gain of \$349,804. The bonds bear fixed interest at a rate of 2.8%.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes	\$ 1,521,000	\$ 1,521,000	\$ 1,593,075	\$ 72,075
Licenses and permits	6,660,000	6,660,000	8,402,999	1,742,999
Fines and forfeits	31,000	31,000	120,235	89,235
Charges for services	235,600	235,600	163,383	(72,217)
Intergovernmental	3,304,283	3,304,283	1,609,868	(1,694,415)
Interest income	30,000	30,000	43,370	13,370
Other revenues	<u>1,251,800</u>	<u>1,251,800</u>	<u>1,460,113</u>	<u>208,313</u>
TOTAL REVENUES	<u>13,033,683</u>	<u>13,033,683</u>	<u>13,393,043</u>	<u>359,360</u>
EXPENDITURES				
General administration	4,964,325	4,964,325	4,349,849	(614,476)
Public safety	8,721,600	9,921,600	9,266,194	(655,406)
Public services	273,000	273,000	204,178	(68,822)
Streets	1,109,400	1,274,400	1,112,815	(161,585)
Parks and recreation	1,382,300	1,382,300	1,128,436	(253,864)
Cemetery	135,800	135,800	130,337	(5,463)
Downtown revitalization	250,500	325,500	163,152	(162,348)
Intergovernmental programs	126,800	126,800	102,482	(24,318)
Capital outlay	4,215,000	4,215,000	3,227,972	(987,028)
Debt service - principal	620,623	10,241,641	10,241,641	-
Debt service - interest	783,877	1,289,259	418,583	(870,676)
Bond issuance cost	<u>-</u>	<u>353,850</u>	<u>353,845</u>	<u>(5)</u>
TOTAL EXPENDITURES	<u>22,583,225</u>	<u>34,503,475</u>	<u>30,699,484</u>	<u>(3,803,991)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	-	14,937,883	14,937,883	-
Proceeds from bond premium	-	767,000	765,879	(1,121)
Proceeds from sale of assets	-	-	2,751	2,751
Transfer from other funds	4,450,000	4,450,000	4,450,927	927
Transfer to other funds	<u>-</u>	<u>-</u>	<u>(9,114)</u>	<u>(9,114)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>4,450,000</u>	<u>20,154,883</u>	<u>20,148,326</u>	<u>(6,557)</u>
NET CHANGE IN FUND BALANCE	(5,099,542)	(1,314,909)	2,841,885	4,156,794
FUND BALANCE, BEGINNING OF YEAR	<u>5,099,542</u>	<u>1,314,909</u>	<u>1,340,191</u>	<u>25,282</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,182,076</u>	<u>\$ 4,182,076</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
EMS FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 3,053,000	\$ 3,053,000	\$ 3,510,087	\$ 457,087
Intergovernmental revenues	1,400,000	1,400,000	1,468,399	68,399
Interest income	500	500	1,018	518
Other revenues	<u>46,000</u>	<u>46,000</u>	<u>41,319</u>	<u>(4,681)</u>
TOTAL REVENUES	<u>4,499,500</u>	<u>4,499,500</u>	<u>5,020,823</u>	<u>521,323</u>
EXPENDITURES				
Emergency medical services	5,546,000	5,546,000	5,221,084	(324,916)
Capital outlay	701,000	701,000	843,320	142,320
Debt service - principal	24,369	24,369	44,913	20,544
Debt service - interest	<u>3,131</u>	<u>3,131</u>	<u>5,190</u>	<u>2,059</u>
TOTAL EXPENDITURES	<u>6,274,500</u>	<u>6,274,500</u>	<u>6,114,507</u>	<u>(159,993)</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	-	360,731	360,731
Transfer from other funds	1,800,000	1,800,000	1,800,000	-
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,775,000</u>	<u>1,775,000</u>	<u>2,110,731</u>	<u>335,731</u>
NET CHANGE IN FUND BALANCE	-	-	1,017,047	1,017,047
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(2,134,153)</u>	<u>(2,134,153)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,117,106)</u>	<u>\$ (1,117,106)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
WATERPARK FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,231,000	\$ 1,531,000	\$ 1,495,630	\$ (35,370)
Interest income	500	500	421	(79)
Other revenues	<u>31,000</u>	<u>31,000</u>	<u>47,243</u>	<u>16,243</u>
TOTAL REVENUES	<u>1,262,500</u>	<u>1,562,500</u>	<u>1,543,294</u>	<u>(19,206)</u>
EXPENDITURES				
Waterpark	1,442,910	1,742,910	1,611,397	(131,513)
Debt service - principal	99,155	99,155	99,155	-
Debt service - interest	<u>56,095</u>	<u>56,095</u>	<u>56,095</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,598,160</u>	<u>1,898,160</u>	<u>1,766,647</u>	<u>(131,513)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>335,660</u>	<u>335,660</u>	<u>335,660</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>335,660</u>	<u>335,660</u>	<u>335,660</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	112,307	112,307
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(4,285,228)</u>	<u>(4,285,228)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,172,921)</u>	<u>\$ (4,172,921)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
FUEL CENTER FUND
for the year ended June 30, 2021

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,115,175	\$ 1,115,175	\$ 898,906	\$ (216,269)
Interest income	<u>100</u>	<u>100</u>	<u>192</u>	<u>92</u>
TOTAL REVENUES	<u>1,115,275</u>	<u>1,115,275</u>	<u>899,098</u>	<u>(216,177)</u>
EXPENDITURES				
Fuel center	1,115,275	1,115,275	928,197	(187,078)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,115,275</u>	<u>1,115,275</u>	<u>928,197</u>	<u>(187,078)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	(29,099)	(29,099)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>37,989</u>	<u>37,989</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,890</u>	<u>\$ 8,890</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.257%	0.257%	0.266%	0.247%	0.253%	0.251%	0.243%	0.234%
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	\$ 17,968,238
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
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%	290.45%
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%	47.81%

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 Eight Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net pension liability	0.923%	0.923%	0.922%	0.882%	0.908%	0.904%	0.905%	1.013%
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	\$ 30,552,097
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
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%	515.48%
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%	44.11%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 675,388	\$ 805,078	\$ 804,991	\$ 727,713	\$ 863,880	\$ 904,347	\$ 1,020,927	\$ 1,193,976	\$ 1,255,663
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>	<u>1,255,663</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,506,027
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%	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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
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	\$ 1,867,445
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>	<u>1,867,445</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,212,394
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%	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 Five Fiscal Years

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.247%	0.253%	0.251%	0.243%	0.234%
City's proportionate share of the net OPEB liability (asset)	\$ 3,987,166	\$ 5,083,271	\$ 4,435,842	\$ 4,085,519	\$ 5,656,811
City's covered employee payroll	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406
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%	91.44%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%

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 Five Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)
City's proportion of the net OPEB liability	0.882%	0.908%	0.904%	0.905%	1.013%
City's proportionate share of the net OPEB liability (asset)	\$ 4,487,562	\$ 7,510,105	\$ 6,442,359	\$ 6,694,644	\$ 9,361,254
City's covered employee payroll	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948
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%	157.94%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%

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

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 370,875	\$ 301,758	\$ 310,632	\$ 271,867	\$ 292,914	\$ 293,538	\$ 331,078	\$ 294,473	\$ 309,687
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>	<u>309,687</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,506,027
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%	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 Nine Fiscal Years**

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Contractually required employer contribution	\$ 826,035	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954	\$ 564,245	\$ 591,420
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>	<u>591,420</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,212,394
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%	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, 2021

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, 2020 – Pension and OPEB – Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

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, 2021

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 GOVERNMENTAL FUNDS
June 30, 2021

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2021 Total
ASSETS						
Cash and cash equivalents	\$ 92,939	\$ -	\$ 17,116	\$ -	\$ 147,339	\$ 257,394
Receivables, net	24,603	-	8,820	-	24,497	57,920
Due from other funds	-	-	-	-	124	124
Prepaid expenses	-	-	-	-	625	625
Total assets	<u>\$ 117,542</u>	<u>\$ -</u>	<u>\$ 25,936</u>	<u>\$ -</u>	<u>\$ 172,585</u>	<u>\$ 316,063</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,142	\$ 1,142
Due to other funds	-	-	40,000	-	17,595	57,595
Other current liabilities	-	-	-	-	12,791	12,791
Total liabilities	-	-	40,000	-	31,528	71,528
Fund balance	<u>117,542</u>	<u>-</u>	<u>(14,064)</u>	<u>-</u>	<u>141,057</u>	<u>244,535</u>
Total liabilities and fund balance	<u>\$ 117,542</u>	<u>\$ -</u>	<u>\$ 25,936</u>	<u>\$ -</u>	<u>\$ 172,585</u>	<u>\$ 316,063</u>

CITY OF SOMERSET, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2021

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2021 Total
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 198,944	\$ 198,944
Charges for services	-	-	-	-	-	-
Intergovernmental revenues	214,346	-	36,471	-	-	250,817
Interest income	846	-	80	-	-	926
Other revenues	-	-	-	-	1,722	1,722
Total revenues	<u>215,192</u>	<u>-</u>	<u>36,551</u>	<u>-</u>	<u>200,666</u>	<u>452,409</u>
EXPENDITURES						
Current						
Streets	57,150	-	-	-	-	57,150
Parks and recreation	-	-	-	-	-	-
Cemetery	-	-	-	-	-	-
Travel and tourism	-	-	-	-	147,519	147,519
Capital outlay	140,172	-	-	-	-	140,172
Debt service	-	-	-	-	-	-
Total expenditures	<u>197,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,519</u>	<u>344,841</u>
Excess revenues over (under) expenditures before other sources (uses)	17,870	-	36,551	-	53,147	107,568
Other financing sources (uses)						
Transfers from (to) other funds (Note 1)	-	9,114	-	(928)	-	8,186
Total other financing sources (uses)	-	9,114	-	(928)	-	8,186
Excess revenues and other sources over (under) expenditures	17,870	9,114	36,551	(928)	53,147	115,754
Fund balance, beginning of year	<u>99,672</u>	<u>(9,114)</u>	<u>(50,615)</u>	<u>928</u>	<u>87,910</u>	<u>128,781</u>
FUND BALANCE - END OF YEAR	<u>\$ 117,542</u>	<u>\$ -</u>	<u>\$ (14,064)</u>	<u>\$ -</u>	<u>\$ 141,057</u>	<u>\$ 244,535</u>

Note 1: The City budgeted to move the Parks and Recreation and Cemetery operations to the General Fund beginning July 1, 2020. The only activity in the current year included transfers of beginning balances to the General Fund.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
GAS DEPARTMENT
for the year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 9,000,000	\$ 8,769,617	\$ (230,383)
Transportation/surcharges	1,032,000	864,626	(167,374)
Other operating revenues	<u>331,000</u>	<u>313,190</u>	<u>(17,810)</u>
TOTAL OPERATING REVENUES	<u>10,363,000</u>	<u>9,947,433</u>	<u>(415,567)</u>
OPERATING EXPENSES			
Gas purchases, net of refunds	3,404,000	3,376,402	(27,598)
Maintenance	615,500	603,243	(12,257)
Personnel services (Note 1)	1,734,000	1,899,380	165,380
Supplies	81,500	63,468	(18,032)
Utilities	60,000	62,346	2,346
Insurance	60,000	55,342	(4,658)
Engineering	66,300	55,525	(10,775)
Severance tax	10,000	6,352	(3,648)
Contract compression	300,000	286,071	(13,929)
Management fees	360,000	360,000	-
Other	304,400	195,352	(109,048)
Depreciation	<u>600,000</u>	<u>470,042</u>	<u>(129,958)</u>
TOTAL OPERATING EXPENSES	<u>7,595,700</u>	<u>7,433,523</u>	<u>(162,177)</u>
OPERATING INCOME	<u>2,767,300</u>	<u>2,513,910</u>	<u>(253,390)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income (loss)	6,500	(3,487)	(9,987)
Interest expense	(24,600)	(29,189)	(4,589)
Gain (loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(18,100)</u>	<u>(32,676)</u>	<u>(14,576)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>2,749,200</u>	<u>2,481,234</u>	<u>(267,966)</u>
Capital contributed - Grants	50,000	883,478	833,478
Transfers out	<u>(3,500,000)</u>	<u>(3,502,700)</u>	<u>(2,700)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(3,450,000)</u>	<u>(2,619,222)</u>	<u>830,778</u>
INCREASE (DECREASE) IN NET POSITION (Note 2)	<u>\$ (700,800)</u>	<u>\$ (137,988)</u>	<u>\$ 562,812</u>

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

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 decrease in net position of \$700,800.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WATER DEPARTMENT
for the year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 8,210,000	\$ 7,248,554	\$ (961,446)
Transportation/surcharges	120,000	90,647	(29,353)
Other operating revenues	117,500	9,220	(108,280)
TOTAL OPERATING REVENUES	<u>8,447,500</u>	<u>7,348,421</u>	<u>(1,099,079)</u>
OPERATING EXPENSES			
Maintenance	932,500	341,369	(591,131)
Personnel services (Note 1)	1,763,100	2,135,772	372,672
Supplies	488,000	463,505	(24,495)
Utilities	850,000	810,582	(39,418)
Insurance	110,000	111,711	1,711
Engineering	50,000	18,739	(31,261)
Management fees	360,000	360,000	-
Other	4,895,500	83,294	(4,812,206)
Amortization	9,100	9,022	(78)
Depreciation	1,750,000	1,532,380	(217,620)
TOTAL OPERATING EXPENSES	<u>11,208,200</u>	<u>5,866,374</u>	<u>(5,341,826)</u>
OPERATING INCOME (LOSS)	<u>(2,760,700)</u>	<u>1,482,047</u>	<u>4,242,747</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	20,000	18,700	(1,300)
Interest expense	(686,987)	(431,372)	255,615
Bond issuance cost	-	(74,682)	(74,682)
Gain (loss) on asset disposal	-	21,459	21,459
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(666,987)</u>	<u>(465,895)</u>	<u>201,092</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(3,427,687)</u>	<u>1,016,152</u>	<u>4,443,839</u>
Capital contributed - Grants	4,750,000	1,166,798	(3,583,202)
Transfers in	-	-	-
Transfers out	(2,100,000)	(2,090,835)	9,165
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>2,650,000</u>	<u>(924,037)</u>	<u>(3,574,037)</u>
INCREASE (DECREASE) IN NET POSITION (Note 2)	<u>\$ (777,687)</u>	<u>\$ 92,115</u>	<u>\$ 869,802</u>

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

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 decrease in net position of \$777,687.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WASTEWATER DEPARTMENT
for the year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 3,315,000	\$ 2,731,044	\$ (583,956)
Transportation/surcharges	23,000	17,147	(5,853)
Other operating revenues	<u>101,000</u>	<u>523,426</u>	<u>422,426</u>
TOTAL OPERATING REVENUES	<u>3,439,000</u>	<u>3,271,617</u>	<u>(167,383)</u>
OPERATING EXPENSES			
Maintenance	550,000	432,681	(117,319)
Personnel services (Note 1)	1,184,000	1,361,738	177,738
Supplies	21,000	31,178	10,178
Utilities	410,000	387,598	(22,402)
Insurance	50,000	49,440	(560)
Engineering	30,000	18,493	(11,507)
Treatment	86,000	107,241	21,241
Other	114,000	92,969	(21,031)
Depreciation	<u>1,500,000</u>	<u>1,070,862</u>	<u>(429,138)</u>
TOTAL OPERATING EXPENSES	<u>3,945,000</u>	<u>3,552,200</u>	<u>(392,800)</u>
OPERATING INCOME (LOSS)	<u>(506,000)</u>	<u>(280,583)</u>	<u>225,417</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	58,000	28,935	(29,065)
Interest expense	(253,849)	(162,576)	91,273
Bond issuance cost	-	(75,946)	(75,946)
Gain (loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(195,849)</u>	<u>(209,587)</u>	<u>(13,738)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(701,849)</u>	<u>(490,170)</u>	<u>211,679</u>
Capital contributed - Grants	6,746,500	1,003,116	(5,743,384)
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>(37,516)</u>	<u>(37,516)</u>
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>6,746,500</u>	<u>965,600</u>	<u>(5,780,900)</u>
INCREASE (DECREASE) IN NET POSITION (Note 2)	<u>\$ 6,044,651</u>	<u>\$ 475,430</u>	<u>\$ (5,569,221)</u>

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 \$488,751. Additionally, the City budgeted for \$874,100 in cash balance forward from the prior year and \$6,430,000 in capital projects. Principal payments, budgeted cash balance forward and capital asset additions are not presented on this schedule. Consequently, this schedule shows a budgeted increase in net position.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
SANITATION DEPARTMENT
for the year ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to customers	\$ 4,260,000	\$ 3,680,186	\$ (579,814)
Other operating revenues	<u>50,000</u>	<u>45,417</u>	<u>(4,583)</u>
TOTAL OPERATING REVENUES	<u>4,310,000</u>	<u>3,725,603</u>	<u>(584,397)</u>
OPERATING EXPENSES			
Maintenance	455,000	177,784	(277,216)
Personnel services (Note 1)	1,331,000	1,546,149	215,149
Supplies	224,500	150,689	(73,811)
Utilities	18,000	21,708	3,708
Insurance	67,000	67,333	333
Landfill	1,100,000	1,078,538	(21,462)
Management fees	360,000	360,000	-
Other	264,500	218,675	(45,825)
Depreciation	<u>275,000</u>	<u>300,842</u>	<u>25,842</u>
TOTAL OPERATING EXPENSES	<u>4,095,000</u>	<u>3,921,718</u>	<u>(173,282)</u>
OPERATING INCOME (LOSS)	<u>215,000</u>	<u>(196,115)</u>	<u>(411,115)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	12,500	7,524	(4,976)
Interest expense	(29,565)	(23,112)	6,453
Gain (loss) on asset disposal	<u>-</u>	<u>148,869</u>	<u>148,869</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(17,065)</u>	<u>133,281</u>	<u>150,346</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>197,935</u>	<u>(62,834)</u>	<u>(260,769)</u>
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>(935,660)</u>	<u>(935,660)</u>	<u>-</u>
TOTAL OPERATING TRANSFERS	<u>(935,660)</u>	<u>(935,660)</u>	<u>-</u>
(DECREASE) INCREASE IN NET POSITION (Note 2)	<u>\$ (737,725)</u>	<u>\$ (998,494)</u>	<u>\$ (260,769)</u>

Note 1: Adjustments to account for the changes in the net pension liability and the net OPEB liability resulted in an increase in pension expense. Due to the uncertainty of the impact of the required net pension/OPEB liability adjustment 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 amounts for cash balance forward and capital asset purchases. Cash balance forward and capital asset purchases are not presented on this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$737,725.



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**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, 2021, 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 30, 2021.

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 30, 2021



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**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, 2021. 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.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City of Somerset, Kentucky, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

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 30, 2021

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2021

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass/Through Contract Number	Grant Contract Period	Passed Through to Subrecipients	Expenditures
U.S. Department of the Treasury Passed through the Kentucky Department for Local Government COVID-19 - Coronavirus Relief Fund for States	21.019	N/A	7/1/2020- 6/30/2021	\$ -	\$ 161,430
Total U.S. Department of the Treasury				<u>-</u>	<u>161,430</u>
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	7/1/2020- 6/30/2021	-	306,000
Total U.S. Department of Housing and Urban Development				<u>-</u>	<u>306,000</u>
U.S. Department of Transportation Passed through the Kentucky Transportation Cabinet Highway Planning and Construction	20.205	N/A	7/1/2020-6/30/2021	-	216,384
National Priority Safety Program	20.616	N/A	7/1/2020-6/30/2021	-	26,796
Total U.S. Department of Transportation				<u>-</u>	<u>243,180</u>
U.S. Department of Agriculture Community Facilities Loan and Grants	10.766	N/A	7/1/2020-6/30/2021	-	50,000
Total U.S. Department of Agriculture				<u>-</u>	<u>50,000</u>
U.S. Department of Homeland Security SAFER Grant	97.083	N/A	7/1/2020-6/30/2021	-	162,659
Total U.S. Department of Homeland Security				<u>-</u>	<u>162,659</u>
Total federal awards expended				<u>\$ -</u>	<u>\$ 923,269</u>

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, 2021**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not considered to be material weaknesses ☐ Yes ☒ None reported

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

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not considered to be material weaknesses ☐ Yes ☒ None reported

Type of 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 ☒ No

Major Program:

AL Numbers

Name of Federal Program or Cluster

20.205

Highway Planning and Construction

14.228

Community Development Block Grant/State's Program

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

\$ 750,000

Auditee qualified as a low-risk auditee?

☐ Yes ☒ No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE