

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



**FINANCIAL STATEMENTS**  
**June 30, 2022**

## CONTENTS

Independent Auditors' Report .....	1-3
Management's Discussion and Analysis.....	4-12
Government-wide Financial Statements	
Statement of Net Position .....	13
Statement of Activities .....	14
Fund Financial Statements	
Balance Sheet – Governmental Funds .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds .....	16
Statement of Net Position – Proprietary Funds .....	17
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	18
Statement of Cash Flows – Proprietary Funds.....	19
Notes to Financial Statements .....	20-47
Required Supplementary Information	
Required Supplementary Budgetary Comparison – General Fund.....	48
Required Supplementary Budgetary Comparison – EMS Fund.....	49
Required Supplementary Budgetary Comparison – Waterpark Fund.....	50
Required Supplementary Budgetary Comparison – Fuel Center.....	51
Proportionate Share of the Net Pension Liability – Nonhazardous .....	52
Proportionate Share of the Net Pension Liability – Hazardous .....	53
Schedule of Pension Contributions – Nonhazardous .....	54
Schedule of Pension Contributions – Hazardous.....	55
Proportionate Share of the Net OPEB Liability – Nonhazardous .....	56
Proportionate Share of the Net OPEB Liability – Hazardous .....	57
Schedule of OPEB Contributions – Nonhazardous.....	58
Schedule of OPEB Contributions – Hazardous.....	59
Notes to Required Supplementary Information .....	60-61
Supplementary Information	
Combining Balance Sheet – All Nonmajor Governmental Funds .....	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – All Nonmajor Governmental Funds .....	63
Statement of Revenues and Expenses – Budget to Actual	
Gas Department .....	64
Water Department .....	65
Wastewater Department.....	66
Sanitation Department.....	67
Virginia Theater .....	68
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 <i>Government Auditing Standards</i> .....	69-70
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance .....	71-73
Schedule of Expenditures of Federal Awards.....	74
Schedule of Findings and Questioned Costs.....	75



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

#### **Opinions**

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, 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.

#### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Somerset, Kentucky to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Somerset, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Somerset, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Somerset, Kentucky's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***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 4–12 and 48–59 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Somerset, Kentucky's 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining nonmajor fund financial statements, proprietary statements of revenues and expenses – budget to actual and the schedule of expenditures of federal awards are 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 December 7, 2022, 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 City of Somerset, Kentucky's internal control over financial reporting and compliance.

**RFH**

RFH, PLLC  
Lexington, Kentucky  
December 7, 2022

## **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, 2022. Please read it in conjunction with the City's financial statements.

### **FINANCIAL HIGHLIGHTS**

- Total assets and deferred outflows of resources were \$158.64 million
- Bank balances totaled \$16.69 million
- Total long-term debt decreased by \$1.65 million
- General fund reported a fund balance of \$2.05 million
- During the year, the City's business-type activities generated net revenues of \$2.4 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$43.35 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$13.11 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, sanitation and Virginia theater 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 has two types of funds that use different accounting approaches: governmental and proprietary.

- 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 \$2.91 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>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current & Other Assets	\$ (.39)	\$ 1.33	\$ 25.19	\$ 25.89	\$ 24.80	\$ 27.22
Capital and Leased Assets	35.08	35.42	84.55	82.33	119.63	117.75
Deferred Outflows	<u>11.38</u>	<u>12.70</u>	<u>2.83</u>	<u>2.93</u>	<u>14.21</u>	<u>15.63</u>
Total Assets and Deferred Outflows	<u>46.07</u>	<u>49.45</u>	<u>112.57</u>	<u>111.15</u>	<u>158.64</u>	<u>160.60</u>
Current Liabilities	3.78	3.57	4.80	3.80	8.58	7.37
Long Term Liabilities	61.69	71.28	40.32	38.65	102.01	109.93
Deferred Inflows	<u>7.63</u>	<u>1.77</u>	<u>2.74</u>	<u>.94</u>	<u>10.37</u>	<u>2.71</u>
Total Liabilities/Deferred Inflows	<u>73.10</u>	<u>76.62</u>	<u>47.86</u>	<u>43.39</u>	<u>120.96</u>	<u>120.01</u>
Net investment in capital assets	17.64	18.53	53.20	54.24	70.84	72.77
Restricted	1.18	6.00	2.36	.82	3.54	6.82
Unrestricted	<u>(45.85)</u>	<u>(51.70)</u>	<u>9.15</u>	<u>12.70</u>	<u>(36.70)</u>	<u>(39.00)</u>
Total Net Position	<u>\$ (27.03)</u>	<u>\$ (27.17)</u>	<u>\$ 64.71</u>	<u>\$ 67.76</u>	<u>\$ 37.68</u>	<u>\$ 40.59</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, increased by \$2.3 million during fiscal year 2022. The major contributing factor for this increase is due to the decreases in GASB Pension and OPEB expenses and increased expenses.

Total assets and deferred outflows for Governmental Activities decreased from \$49.45 million at June 30, 2021 to \$46.07 million at June 30, 2022. The major contributing factor for this decrease is due to using the cash we had on hand from last year from long term debt proceeds on projects in the current year.

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

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

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 7.51	\$ 6.07	\$ 25.13	\$ 24.29	\$ 32.64	\$ 30.36
Federal & State Grants	6.28	3.43	-	3.06	6.28	6.49
General Revenues						
Property Taxes	1.91	1.79	-	-	1.91	1.79
Other Taxes and License Fees	9.04	8.36	-	-	9.04	8.36
Other General Revenues	<u>1.50</u>	<u>1.76</u>	<u>-</u>	<u>.05</u>	<u>1.50</u>	<u>1.81</u>
Total Revenues	<u>\$ 26.24</u>	<u>\$ 21.41</u>	<u>\$ 25.13</u>	<u>\$ 27.40</u>	<u>\$ 51.37</u>	<u>\$ 48.81</u>
<b>Program Expenses</b>						
General Government	\$ 5.15	\$ 5.14	\$ -	\$ -	\$ 5.15	\$ 5.14
Public Safety	11.55	12.65	-	-	11.55	12.65
Public Services	.30	.20	-	-	.30	.20
Streets	2.08	1.84	-	-	2.08	1.84
Parks and Recreation	1.36	1.40	-	-	1.36	1.40
Emergency Medical Services	6.51	7.06	-	-	6.51	7.06
Cemetery	.13	.14	-	-	.13	.14
Fuel Center	1.38	.97	-	-	1.38	.97
Waterpark	2.29	2.34	-	-	2.29	2.34
Travel & Tourism	.30	.16	-	-	.30	.16
Intergovernmental Programs	.12	.11	-	-	.12	.11
Downtown Revitalization	.01	.16	-	-	.01	.16
Debt Service – Interest & bond costs	.50	.81	-	-	.50	.81
Interest on long-term leases	.03	-	-	-	.03	-
Gas	-	-	8.12	7.46	8.12	7.46
Water	-	-	6.24	6.37	6.24	6.37
Wastewater	-	-	4.02	3.79	4.02	3.79
Sanitation	-	-	4.35	3.95	4.35	3.95
Virginia Theater	-	-	.19	-	.19	-
Total Expense	<u>\$ 31.71</u>	<u>\$ 32.98</u>	<u>\$ 22.92</u>	<u>\$ 21.57</u>	<u>\$ 54.63</u>	<u>\$ 54.55</u>
Gain (Loss) on disposal of capital assets	\$ .16	\$ (.41)	\$ .19	\$ .17	\$ .35	\$ (.24)
Excess (Deficiency) before Transfer	(5.31)	(11.98)	2.40	6.00	(2.91)	(5.98)
Transfer	<u>5.45</u>	<u>6.57</u>	<u>(5.45)</u>	<u>(6.57)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	.14	(5.41)	(3.05)	(.57)	(2.91)	(5.98)
Net Position, beginning	<u>(27.17)</u>	<u>(21.76)</u>	<u>67.76</u>	<u>68.33</u>	<u>40.59</u>	<u>46.57</u>
Net Position, ending	<u>\$ (27.03)</u>	<u>\$ (27.17)</u>	<u>\$ 64.71</u>	<u>\$ 67.76</u>	<u>\$ 37.68</u>	<u>\$ 40.59</u>

## Management's Discussion and Analysis, Continued

The City's total revenues increased by \$ 2.56 million. The total cost of all programs and services increased by \$ 0.08 million. The major change in revenue comes from an increase in charges for services. Not a major change to expenses as a whole this year. Our analysis below separately considers the operations of governmental and business-type activities.

### **Governmental Activities**

The cost of all governmental activities this year was \$31.71 million compared to \$32.98 million last year. Overall, the City's governmental program fees for services increased from \$6.07 million in 2021 to \$7.51 million in 2022. The City paid for the remaining "public benefit" portion of governmental activities with \$10.95 million in taxes and license fees, \$6.28 million in grants and entitlements, \$1.50 million of other revenues, and \$5.45 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 decreased by \$5.57 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 decrease is due to increases in federal grant revenues.

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

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Emergency Medical Services	\$ 6.51	\$ 7.06	\$ 1.39	\$ 2.08
Police and Fire Department	11.50	12.65	7.53	11.34
Streets	2.08	1.84	1.75	1.59
Waterpark	2.29	2.34	.26	.84
Parks and recreation	1.36	1.40	1.20	1.28
All Others	<u>7.97</u>	<u>7.69</u>	<u>5.78</u>	<u>6.35</u>
Totals	<u>\$ 31.71</u>	<u>\$ 32.98</u>	<u>\$ 17.91</u>	<u>\$ 23.48</u>

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

### **Business-Type Activities**

Revenues of the City's business-type activities (see Table 2) decreased by \$2.27 million (\$27.40 million in 2021 compared to \$25.13 million in 2022) and expenses increased by \$1.35 million (\$21.57 million in 2021 compared to \$22.92 million in 2022). The factors driving these results include:

The major decrease in revenue for this fiscal year is due to a decrease 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 15) reported a fund balance of \$2.05 million.

#### **General Fund Budgetary Highlights**

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

For the General Fund, actual revenues were \$1.37 million less than the \$18.41 million budgeted, while actual expenditures were \$5.08 million less than the expected \$29.67 million budgeted.

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

#### **Capital Assets**

At the end of 2022, the City had \$119.63 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 and Amortization, in Millions)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total Primary</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Land	\$ 3.96	\$ 4.00	\$ 1.08	\$ 1.00	\$ 5.04	\$ 5.00
Right of Way and Easements	.01	.01	.15	.14	.16	.15
Construction in Progress	.58	.39	5.37	1.26	5.95	1.65
Infrastructure	12.11	11.99	-	-	12.11	11.99
Utility Plant and Distribution System	-	-	41.89	43.43	41.89	43.43
Buildings and Improvements	14.24	14.81	32.75	33.34	46.99	48.15
Vehicles	2.72	2.77	.86	1.43	3.58	4.20
Equipment	.31	.48	.79	.96	1.10	1.44
Office Equipment	.04	.01	.45	.47	0.49	0.48
Land Improvements	.24	.28	.06	.07	0.30	0.35
Leased vehicles	.68	.42	.50	.23	1.18	.65
Leased equipment	.19	.26	.65	-	.84	.26
Total	<u>\$ 35.08</u>	<u>\$ 35.42</u>	<u>\$ 84.55</u>	<u>\$ 82.33</u>	<u>\$ 119.63</u>	<u>\$ 117.75</u>

This year's major additions were:

Construction project still not finished as of June 30, 2022: Virginia Cinema, Fischer Fun Park #2, Sewer Sludge Dewatering, Appharvest utilities extension, and Oak Hill Water Booster station.

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, 2022, the City's Governmental Activities long term debt had decreased by \$3.96 million and the Business-Type Activities long term debt increased by \$2.31 million from the prior year. We are now required to include our Net Pension Liability, which decreased in the Governmental and Business-Type Activities by \$4.03 million and \$1.14 million respectively. We are now required to include our OPEB Liability, which decreased in the Governmental Activities by \$1.42 million and decreased in the Business-Type activities by \$.49 million. We are now required to include our Lease Liability, which increased in the Governmental Activities by \$.21 million and increased in the Business-Type activities by \$.94 million. Table 5 below contains the details.

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

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total Primary</u> <u>Government</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Long-Term Debt	\$ 17.28	\$ 21.24	\$ 30.21	\$ 27.90	\$ 47.49	\$ 49.14
Net Pension Liability	34.67	38.70	8.68	9.82	43.35	48.52
Net OPEB Liability	10.51	11.93	2.60	3.09	13.11	15.02
Lease Liability	<u>.89</u>	<u>.68</u>	<u>1.17</u>	<u>.23</u>	<u>2.06</u>	<u>.91</u>
Totals	<u>\$ 63.35</u>	<u>\$ 72.55</u>	<u>\$ 42.66</u>	<u>\$ 41.04</u>	<u>\$ 106.01</u>	<u>\$ 113.59</u>

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

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

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**June 30, 2022**

**Primary Government**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 4,074,036	\$ 3,256,010	\$ 7,330,046
Certificates of deposit	1,008,277	4,664,065	5,672,342
Investments	-	455,586	455,586
Receivables, net	2,962,286	3,509,459	6,471,745
Lease receivable	-	74,676	74,676
Accrued interest receivable	281	511	792
Inventories	284,793	1,219,292	1,504,085
Prepaid expenses	8,815	4,250	13,065
Internal balances, net	<u>(9,614,734)</u>	<u>9,614,734</u>	<u>-</u>
Total current assets	<u>(1,276,246)</u>	<u>22,798,583</u>	<u>21,522,337</u>
Noncurrent assets			
Restricted cash and cash equivalents	890,920	2,357,796	3,248,716
Excess cost over market value of assets acquired, net	-	33,149	33,149
Capital assets			
Nondepreciable capital assets	4,555,739	6,598,834	11,154,573
Depreciable capital assets, net	29,661,458	76,796,650	106,458,108
Leased vehicles and equipment, net	<u>866,287</u>	<u>1,150,422</u>	<u>2,016,709</u>
Total noncurrent assets	<u>35,974,404</u>	<u>86,936,851</u>	<u>122,911,255</u>
Total assets	<u>34,698,158</u>	<u>109,735,434</u>	<u>144,433,592</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - pension	6,434,807	1,335,563	7,770,370
Deferred outflows - OPEB	<u>4,942,035</u>	<u>1,494,657</u>	<u>6,436,692</u>
Total deferred outflows of resources	<u>11,376,842</u>	<u>2,830,220</u>	<u>14,207,062</u>
Total assets and deferred outflows of resources	<u>\$ 46,075,000</u>	<u>\$ 112,565,654</u>	<u>\$ 158,640,654</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 674,160	\$ 1,257,802	\$ 1,931,962
Deferred revenue	200	7,695	7,895
Accrued interest payable	104,473	161,183	265,656
Other current liabilities	1,342,816	900,020	2,242,836
Retainage payable	-	131,226	131,226
Current portion of lease liability	297,162	306,123	603,285
Current portion of long-term debt	<u>1,363,324</u>	<u>2,039,432</u>	<u>3,402,756</u>
Total current liabilities	<u>3,782,135</u>	<u>4,803,481</u>	<u>8,585,616</u>
Noncurrent liabilities			
Lease liability	591,301	864,120	1,455,421
Notes payable	705,833	6,179,423	6,885,256
Bonds payable	15,213,153	21,993,650	37,206,803
Net pension liability	34,673,512	8,676,022	43,349,534
Net OPEB liability	<u>10,506,240</u>	<u>2,604,527</u>	<u>13,110,767</u>
Total noncurrent liabilities	<u>61,690,039</u>	<u>40,317,742</u>	<u>102,007,781</u>
Total liabilities	<u>65,472,174</u>	<u>45,121,223</u>	<u>110,593,397</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - pension	4,073,150	1,362,739	5,435,889
Deferred inflows - OPEB	3,553,876	1,298,937	4,852,813
Deferred inflows - leases	<u>-</u>	<u>74,676</u>	<u>74,676</u>
Total deferred inflows of resources	<u>7,627,026</u>	<u>2,736,352</u>	<u>10,363,378</u>
<b>NET POSITION</b>			
Net investment in capital assets	17,644,825	53,196,309	70,841,134
Restricted for			
Debt service	-	2,357,796	2,357,796
Construction	732,114	-	732,114
Other purposes	444,499	-	444,499
Unrestricted	<u>(45,845,638)</u>	<u>9,153,974</u>	<u>(36,691,664)</u>
Total net position	<u>(27,024,200)</u>	<u>64,708,079</u>	<u>37,683,879</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 46,075,000</u>	<u>\$ 112,565,654</u>	<u>\$ 158,640,654</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, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 5,144,395	\$ 385,525	\$ 400,000	\$ -	\$ (4,358,870)	\$ -	\$ (4,358,870)
Public safety	11,549,235	-	4,013,373	-	(7,535,862)	-	(7,535,862)
Public services	301,573	-	-	-	(301,573)	-	(301,573)
Streets	2,079,509	-	253,687	80,701	(1,745,121)	-	(1,745,121)
Parks and recreation	1,361,565	155,392	-	-	(1,206,173)	-	(1,206,173)
Emergency medical services	6,512,148	3,593,947	1,529,390	-	(1,388,811)	-	(1,388,811)
Cemetery	128,718	38,205	-	-	(90,513)	-	(90,513)
Waterpark	2,289,365	2,026,072	-	-	(263,293)	-	(263,293)
Fuel center	1,380,792	1,315,196	-	-	(65,596)	-	(65,596)
Travel and tourism	302,552	-	-	-	(302,552)	-	(302,552)
Intergovernmental programs	118,865	-	-	-	(118,865)	-	(118,865)
Downtown revitalization	10,003	-	-	-	(10,003)	-	(10,003)
Interest on long-term debt	449,454	-	-	-	(449,454)	-	(449,454)
Interest on long-term leases	26,455	-	-	-	(26,455)	-	(26,455)
Bond issuance cost	51,562	-	-	-	(51,562)	-	(51,562)
<b>Total governmental activities</b>	<b>31,706,191</b>	<b>7,514,337</b>	<b>6,196,450</b>	<b>80,701</b>	<b>(17,914,703)</b>	<b>-</b>	<b>(17,914,703)</b>
<b>Business-type activities</b>							
Gas department	8,117,539	9,896,635	-	-	-	1,779,096	1,779,096
Water department	6,238,753	7,694,506	-	-	-	1,455,753	1,455,753
Wastewater department	4,018,079	3,713,118	-	-	-	(304,961)	(304,961)
Sanitation department	4,353,926	3,825,916	-	-	-	(528,010)	(528,010)
Virginia Theater	195,445	-	-	-	-	(195,445)	(195,445)
<b>Total business-type activities</b>	<b>22,923,742</b>	<b>25,130,175</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,206,433</b>	<b>2,206,433</b>
<b>Total primary government</b>	<b>\$ 54,629,933</b>	<b>\$ 32,644,512</b>	<b>\$ 6,196,450</b>	<b>\$ 80,701</b>	<b>(17,914,703)</b>	<b>2,206,433</b>	<b>(15,708,270)</b>
<b>General revenues</b>							
Taxes:							
Property taxes					1,667,433	-	1,667,433
Transient room tax					246,076	-	246,076
License fees:							
Franchise					1,064,271	-	1,064,271
Insurance premiums					2,139,076	-	2,139,076
Occupational					4,962,725	-	4,962,725
ABC					920,542	-	920,542
Investment earnings					24,289	3,161	27,450
Miscellaneous					1,430,784	-	1,430,784
<b>Total general revenues</b>					<b>12,455,196</b>	<b>3,161</b>	<b>12,458,357</b>
Gain (loss) on disposal of capital assets					156,828	191,374	348,202
Transfers in (out)					5,450,768	(5,450,768)	-
<b>Change in Net Position</b>					<b>148,089</b>	<b>(3,049,800)</b>	<b>(2,901,711)</b>
Net position-beginning					(27,172,289)	67,757,879	40,585,590
<b>NET POSITION-ENDING</b>					<b>\$ (27,024,200)</b>	<b>\$ 64,708,079</b>	<b>\$ 37,683,879</b>

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



**CITY OF SOMERSET, KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2022**

	<u>General</u>	<u>EMS</u>	<u>Waterpark</u>	<u>Fuel Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,762,389	\$ 271,502	\$ 588,853	\$ 65,299	\$ 276,913	\$ 4,964,956
Certificates of deposit	1,008,277	-	-	-	-	1,008,277
Receivables, net	2,332,637	509,752	41,065	23,422	55,410	2,962,286
Interest receivable	281	-	-	-	-	281
Inventories	26,956	-	51,211	206,626	-	284,793
Prepaid expenses	8,815	-	-	-	-	8,815
Due from other funds	4,660,552	-	-	65,826	2,030	4,728,408
Total assets	<u>\$ 11,799,907</u>	<u>\$ 781,254</u>	<u>\$ 681,129</u>	<u>\$ 361,173</u>	<u>\$ 334,353</u>	<u>\$ 13,957,816</u>
<b>LIABILITIES AND FUND BALANCE</b>						
Liabilities						
Accounts payable	\$ 307,072	\$ 71,000	\$ 121,395	\$ 170,434	\$ 4,259	\$ 674,160
Due to other funds	8,510,302	1,364,244	4,241,810	215,010	11,776	14,343,142
Unearned revenue	-	-	-	-	200	200
Other current liabilities	935,448	275,700	113,161	4,110	14,397	1,342,816
Total liabilities	<u>9,752,822</u>	<u>1,710,944</u>	<u>4,476,366</u>	<u>389,554</u>	<u>30,632</u>	<u>16,360,318</u>
Fund balance						
Nonspendable	35,771	-	51,211	206,626	-	293,608
Restricted	890,920	-	-	-	303,721	1,194,641
Unassigned	1,120,394	(929,690)	(3,846,448)	(235,007)	-	(3,890,751)
Total fund balance	<u>2,047,085</u>	<u>(929,690)</u>	<u>(3,795,237)</u>	<u>(28,381)</u>	<u>303,721</u>	<u>(2,402,502)</u>
Total liabilities and fund balance	<u>\$ 11,799,907</u>	<u>\$ 781,254</u>	<u>\$ 681,129</u>	<u>\$ 361,173</u>	<u>\$ 334,353</u>	<u>\$ 13,957,816</u>

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

Fund balance reported above	\$ (2,402,502)
Capital and leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	35,083,484
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(104,473)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	3,749,816
Long-term liabilities, including bonds, leases, notes payable and net pension/OPEB liability, are not due and payable in the current period and therefore are not reported in the funds.	<u>(63,350,525)</u>
Net position of governmental activities	<u>\$ (27,024,200)</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, 2022**

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 1,667,433	\$ -	\$ -	\$ -	\$ 246,076	\$ 1,913,509
Licenses and permits	9,086,614	-	-	-	-	9,086,614
Fines and forfeits	27,405	-	-	-	-	27,405
Charges for services	579,122	3,593,947	2,026,072	1,315,196	-	7,514,337
Intergovernmental	4,413,373	1,529,390	-	-	253,687	6,196,450
Interest income	22,090	938	770	163	328	24,289
Other revenues	1,246,063	50,802	29,903	-	76,611	1,403,379
Total revenues	<u>17,042,100</u>	<u>5,175,077</u>	<u>2,056,745</u>	<u>1,315,359</u>	<u>576,702</u>	<u>26,165,983</u>
<b>EXPENDITURES</b>						
Current:						
General administration	4,727,416	-	-	-	-	4,727,416
Public safety	9,826,375	-	-	-	-	9,826,375
Public services	301,573	-	-	-	-	301,573
Streets	1,285,630	-	-	-	123,025	1,408,655
Parks and recreation	1,167,093	-	-	-	-	1,167,093
Emergency medical services	-	5,709,523	-	-	-	5,709,523
Cemetery	127,076	-	-	-	-	127,076
Waterpark	-	-	1,637,707	-	-	1,637,707
Fuel center	-	-	-	1,352,630	-	1,352,630
Travel and tourism	-	-	-	-	299,291	299,291
Downtown revitalization	10,003	-	-	-	-	10,003
Intergovernmental programs	119,338	-	-	-	-	119,338
Capital outlay	1,555,123	-	906,996	-	157,711	2,619,830
Debt service	5,417,468	128,138	1,541,574	-	-	7,087,180
Bond issuance cost	51,562	-	-	-	-	51,562
Total expenditures	<u>24,588,657</u>	<u>5,837,661</u>	<u>4,086,277</u>	<u>1,352,630</u>	<u>580,027</u>	<u>36,445,252</u>
Excess (deficiency) of revenues over expenditures	<u>(7,546,557)</u>	<u>(662,584)</u>	<u>(2,029,532)</u>	<u>(37,271)</u>	<u>(3,325)</u>	<u>(10,279,269)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from issuance of debt	4,570,965	-	1,314,216	-	-	5,885,181
Proceeds from sale of capital assets	182,480	-	-	-	-	182,480
Transfers in (out)	658,121	850,000	1,093,000	-	62,511	2,663,632
Total other financing sources and uses	<u>5,411,566</u>	<u>850,000</u>	<u>2,407,216</u>	<u>-</u>	<u>62,511</u>	<u>8,731,293</u>
<b>Net change in fund balances</b>	<b>(2,134,991)</b>	<b>187,416</b>	<b>377,684</b>	<b>(37,271)</b>	<b>59,186</b>	<b>(1,547,976)</b>
Fund balance-beginning	<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>
<b>Fund balance-ending</b>	<b>\$ 2,047,085</b>	<b>\$ (929,690)</b>	<b>\$ (3,795,237)</b>	<b>\$ (28,381)</b>	<b>\$ 303,721</b>	<b>\$ (2,402,502)</b>

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (1,547,976)
add: capital outlay expenditures capitalized	2,619,830
add: debt service expenditures	7,087,180
add: donated roads	80,701
add: gain from disposal of assets	156,828
add: bonds payable transferred to Virginia Theater	3,004,474
less: capital asset transfers to Virginia Theater	(217,338)
less: proceeds from sale of assets	(182,480)
less: proceeds from issuance of debt	(5,885,181)
less: depreciation and amortization on governmental activities assets	(2,761,142)
less: change in net pension liability	(1,404,218)
less: change in net OPEB liability	(326,680)
less: interest on long term debt and long term leases	(475,909)

Change in net position governmental activities

\$ 148,089

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

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**June 30, 2022**

	Business-type Activities					Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Virginia Theater	
<b>ASSETS</b>						
Current assets						
Cash and cash equivalents	\$ 962,673	\$ 1,848,006	\$ 302,421	\$ 10,745	\$ 132,165	\$ 3,256,010
Certificates of deposit	-	1,259,830	2,803,528	600,707	-	4,664,065
Investments	227,793	227,793	-	-	-	455,586
Receivables, net	630,245	1,226,542	631,104	1,013,873	7,695	3,509,459
Lease receivable	74,676	-	-	-	-	74,676
Accrued interest receivable	-	41	463	7	-	511
Inventories	251,738	917,959	47,345	-	2,250	1,219,292
Prepaid expenses	-	-	-	-	4,250	4,250
Due from other funds	<u>3,040,553</u>	<u>6,477,060</u>	<u>250</u>	<u>306,109</u>	<u>-</u>	<u>9,823,972</u>
Total current assets	<u>5,187,678</u>	<u>11,957,231</u>	<u>3,785,111</u>	<u>1,931,441</u>	<u>146,360</u>	<u>23,007,821</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	726,974	1,630,822	-	-	2,357,796
Excess cost over market value of assets acquired, net	-	33,149	-	-	-	33,149
Capital assets						
Nondepreciable capital assets	521,608	2,468,542	607,862	75,000	2,925,822	6,598,834
Leased vehicles and equipment	1,058,175	106,369	165,144	93,056	-	1,422,744
Depreciable capital assets	27,970,401	71,174,071	46,852,528	3,821,474	-	149,818,474
Less accumulated depreciation and amortization	<u>(21,388,538)</u>	<u>(26,200,614)</u>	<u>(23,442,931)</u>	<u>(2,262,063)</u>	<u>-</u>	<u>(73,294,146)</u>
Total noncurrent assets	<u>8,161,646</u>	<u>48,308,491</u>	<u>25,813,425</u>	<u>1,727,467</u>	<u>2,925,822</u>	<u>86,936,851</u>
Total assets	<u>13,349,324</u>	<u>60,265,722</u>	<u>29,598,536</u>	<u>3,658,908</u>	<u>3,072,182</u>	<u>109,944,672</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pension	371,284	392,932	245,877	325,470	-	1,335,563
Deferred outflows - OPEB	<u>415,512</u>	<u>439,739</u>	<u>275,166</u>	<u>364,240</u>	<u>-</u>	<u>1,494,657</u>
Total deferred outflows of resources	<u>786,796</u>	<u>832,671</u>	<u>521,043</u>	<u>689,710</u>	<u>-</u>	<u>2,830,220</u>
Total assets and deferred outflows of resources	<u>\$ 14,136,120</u>	<u>\$ 61,098,393</u>	<u>\$ 30,119,579</u>	<u>\$ 4,348,618</u>	<u>\$ 3,072,182</u>	<u>\$ 112,774,892</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 337,395	\$ 556,495	\$ 223,252	\$ 132,120	\$ 8,540	\$ 1,257,802
Due to other funds	7,713	5,952	193,199	-	2,374	209,238
Accrued interest payable	2,836	136,203	15,178	942	6,024	161,183
Unearned revenue	-	-	-	-	7,695	7,695
Other current liabilities	585,809	133,292	86,841	92,664	1,414	900,020
Retainage payable	-	118,706	2,520	-	10,000	131,226
Current portion of lease liability	216,285	27,464	43,434	18,940	-	306,123
Current portion of long-term debt	<u>96,778</u>	<u>529,827</u>	<u>655,279</u>	<u>653,724</u>	<u>103,824</u>	<u>2,039,432</u>
Total current liabilities	<u>1,246,816</u>	<u>1,507,939</u>	<u>1,219,703</u>	<u>898,390</u>	<u>139,871</u>	<u>5,012,719</u>
Noncurrent liabilities						
Notes payable	46,910	1,347,661	4,693,471	91,381	-	6,179,423
Lease liability	651,378	61,421	87,133	64,188	-	864,120
Bonds payable	542,052	14,977,314	3,676,458	-	2,797,826	21,993,650
Net pension liability	2,411,919	2,552,549	1,597,251	2,114,303	-	8,676,022
Net OPEB liability	<u>724,054</u>	<u>766,271</u>	<u>479,492</u>	<u>634,710</u>	<u>-</u>	<u>2,604,527</u>
Total noncurrent liabilities	<u>4,376,313</u>	<u>19,705,216</u>	<u>10,533,805</u>	<u>2,904,582</u>	<u>2,797,826</u>	<u>40,317,742</u>
Total liabilities	<u>5,623,129</u>	<u>21,213,155</u>	<u>11,753,508</u>	<u>3,802,972</u>	<u>2,937,697</u>	<u>45,330,461</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows - pension	378,838	400,929	250,881	332,091	-	1,362,739
Deferred inflows - OPEB	361,103	382,157	239,134	316,543	-	1,298,937
Deferred inflows - leases	<u>74,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74,676</u>
Total deferred inflows of resources	<u>814,617</u>	<u>783,086</u>	<u>490,015</u>	<u>648,634</u>	<u>-</u>	<u>2,736,352</u>
<b>NET POSITION</b>						
Net investment in capital assets	6,608,243	30,637,830	15,026,828	899,234	24,174	53,196,309
Restricted for debt service	-	726,974	1,630,822	-	-	2,357,796
Unrestricted	<u>1,090,131</u>	<u>7,737,348</u>	<u>1,218,406</u>	<u>(1,002,222)</u>	<u>110,311</u>	<u>9,153,974</u>
Total net position	<u>7,698,374</u>	<u>39,102,152</u>	<u>17,876,056</u>	<u>(102,988)</u>	<u>134,485</u>	<u>64,708,079</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,136,120</u>	<u>\$ 61,098,393</u>	<u>\$ 30,119,579</u>	<u>\$ 4,348,618</u>	<u>\$ 3,072,182</u>	<u>\$ 112,774,892</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, 2022**

	<b>Business-type Activities</b>					<b>Total</b>
	<b>Gas Department</b>	<b>Water Department</b>	<b>Wastewater Department</b>	<b>Sanitation Department</b>	<b>Virginia Theater</b>	
<b>Operating revenues</b>						
Sales to customers	\$ 8,855,243	\$ 7,506,313	\$ 2,927,772	\$ 3,794,179	\$ -	\$ 23,083,507
Transportation/surcharges	699,478	177,109	6,144	-	-	882,731
Other operating revenues	341,914	11,084	779,202	31,737	-	1,163,937
<b>Total operating revenues</b>	<b>9,896,635</b>	<b>7,694,506</b>	<b>3,713,118</b>	<b>3,825,916</b>	<b>-</b>	<b>25,130,175</b>
<b>Operating expenses</b>						
Gas purchases, net of refunds	4,151,433	-	-	-	-	4,151,433
Operating expenses	2,591,433	3,826,986	2,065,902	3,730,709	121,103	12,336,133
Maintenance	591,898	434,506	613,891	327,941	-	1,968,236
Depreciation and amortization	725,579	1,618,781	1,142,838	267,624	-	3,754,822
<b>Total operating expenses</b>	<b>8,060,343</b>	<b>5,880,273</b>	<b>3,822,631</b>	<b>4,326,274</b>	<b>121,103</b>	<b>22,210,624</b>
<b>Operating income (loss)</b>	<b>1,836,292</b>	<b>1,814,233</b>	<b>(109,513)</b>	<b>(500,358)</b>	<b>(121,103)</b>	<b>2,919,551</b>
<b>Nonoperating revenues (expenses)</b>						
Gain (loss) on disposal of capital assets	38,541	47,125	(73,105)	178,813	-	191,374
Interest and investment income (loss)	(9,835)	(3,730)	14,052	2,487	187	3,161
Interest expense	(47,989)	(358,480)	(181,637)	(27,652)	(74,342)	(690,100)
Bond issuance cost	(9,207)	-	(13,811)	-	-	(23,018)
<b>Total nonoperating revenues (expenses)</b>	<b>(28,490)</b>	<b>(315,085)</b>	<b>(254,501)</b>	<b>153,648</b>	<b>(74,155)</b>	<b>(518,583)</b>
<b>Income (loss) before capital contributions and transfers</b>	<b>1,807,802</b>	<b>1,499,148</b>	<b>(364,014)</b>	<b>(346,710)</b>	<b>(195,258)</b>	<b>2,400,968</b>
Transfers in (out)	(3,200,000)	(1,800,000)	-	(780,511)	329,743	(5,450,768)
<b>Change in net position</b>	<b>(1,392,198)</b>	<b>(300,852)</b>	<b>(364,014)</b>	<b>(1,127,221)</b>	<b>134,485</b>	<b>(3,049,800)</b>
<b>Total net position-beginning</b>	<b>9,090,572</b>	<b>39,403,004</b>	<b>18,240,070</b>	<b>1,024,233</b>	<b>-</b>	<b>67,757,879</b>
<b>TOTAL NET POSITION-ENDING</b>	<b>\$ 7,698,374</b>	<b>\$ 39,102,152</b>	<b>\$ 17,876,056</b>	<b>\$ (102,988)</b>	<b>\$ 134,485</b>	<b>\$ 64,708,079</b>

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, 2022**

	<b>Business-type Activities</b>					
	<b>Gas Department</b>	<b>Water Department</b>	<b>Wastewater Department</b>	<b>Sanitation Department</b>	<b>Virginia Theater</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 9,449,066	\$ 7,224,423	\$ 2,981,016	\$ 3,665,029	\$ -	\$ 23,319,534
Cash payments to suppliers for goods and services	(5,126,749)	(2,849,973)	(1,412,545)	(2,157,188)	(114,131)	(11,660,586)
Cash payments to employees	(1,805,132)	(1,920,661)	(1,282,845)	(1,576,756)	(3,518)	(6,588,912)
Other operating revenues	341,914	11,084	779,202	31,737	-	1,163,937
<b>Net cash provided (used) by operating activities</b>	<b>2,859,099</b>	<b>2,464,873</b>	<b>1,064,828</b>	<b>(37,178)</b>	<b>(117,649)</b>	<b>6,233,973</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Receipts (payments) on interfund loans	1,028,458	(4,222)	271,611	930,288	2,374	2,228,509
Transfers (to) from other funds	(3,200,000)	(1,800,000)	-	(780,511)	112,405	(5,668,106)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>(2,171,542)</b>	<b>(1,804,222)</b>	<b>271,611</b>	<b>149,777</b>	<b>114,779</b>	<b>(3,439,597)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal paid on bonds, notes and leases	(902,869)	(590,781)	(1,722,837)	(706,705)	(102,824)	(4,026,016)
Interest paid on bonds, notes and leases	(49,326)	(356,076)	(180,605)	(27,685)	(68,318)	(682,010)
Bond issuance costs paid on bonds	(9,207)	-	(13,811)	-	-	(23,018)
Proceeds from issuance of debt	605,966	1,198,563	1,026,094	159,022	3,004,474	5,994,119
Acquisition and construction of capital assets	(281,410)	(957,855)	(424,786)	(190,294)	(2,698,484)	(4,552,829)
Proceeds from sale of assets	32,041	-	14,224	184,379	-	230,644
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(604,805)</b>	<b>(706,149)</b>	<b>(1,301,721)</b>	<b>(581,283)</b>	<b>134,848</b>	<b>(3,059,110)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of investments	-	-	(3,395)	(632)	-	(4,027)
Interest income	3,722	12,108	13,957	2,528	187	32,502
<b>Net cash provided (used) by investing activities</b>	<b>3,722</b>	<b>12,108</b>	<b>10,562</b>	<b>1,896</b>	<b>187</b>	<b>28,475</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>86,474</b>	<b>(33,390)</b>	<b>45,280</b>	<b>(466,788)</b>	<b>132,165</b>	<b>(236,259)</b>
<b>Balances-beginning of the year</b>	<b>876,199</b>	<b>2,608,370</b>	<b>1,887,963</b>	<b>477,533</b>	<b>-</b>	<b>5,850,065</b>
<b>BALANCES-END OF THE YEAR</b>	<b>\$ 962,673</b>	<b>\$ 2,574,980</b>	<b>\$ 1,933,243</b>	<b>\$ 10,745</b>	<b>\$ 132,165</b>	<b>\$ 5,613,806</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss):	\$ 1,836,292	\$ 1,814,233	\$ (109,513)	\$ (500,358)	\$ (121,103)	\$ 2,919,551
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization expense	725,579	1,618,781	1,142,838	267,624	-	3,754,822
Net pension liability activity	(22,699)	(26,005)	(29,599)	230,621	-	152,318
Net OPEB liability activity	(5,140)	(5,989)	(7,429)	64,714	-	46,156
Change in assets and liabilities:						
Receivables, net	(105,655)	(458,999)	47,100	(129,150)	(7,695)	(654,399)
Inventory	(4,057)	(539,762)	848	5,556	(2,250)	(539,665)
Prepaid expenses	28,984	27,856	21,252	16,621	(4,250)	90,463
Accounts payable	93,081	27,397	(16,459)	(4,694)	8,540	107,865
Other liabilities	312,714	7,361	15,790	11,888	1,414	349,167
Unearned revenue	-	-	-	-	7,695	7,695
<b>Net cash provided by operating activities</b>	<b>\$ 2,859,099</b>	<b>\$ 2,464,873</b>	<b>\$ 1,064,828</b>	<b>\$ (37,178)</b>	<b>\$ (117,649)</b>	<b>\$ 6,233,973</b>
<b>Supplemental disclosure of cash flow information:</b>						
Noncash capital and related financing activities:						
Leased vehicle and equipment additions, net	\$ 777,780	\$ 34,869	\$ 46,299	\$ 60,526	\$ -	\$ 919,474
Payables for capital items, net	(11,193)	514,876	52,221	-	10,000	565,904
<b>Net non-cash capital and related financing activities</b>	<b>\$ 766,587</b>	<b>\$ 549,745</b>	<b>\$ 98,520</b>	<b>\$ 60,526</b>	<b>\$ 10,000</b>	<b>\$ 1,485,378</b>

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Somerset, Kentucky (the City), operates under the Mayor-Council form of government and provides such services as public safety; streets; parks and recreation; emergency medical services; cemetery; fuel center; waterpark; theater; 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, 2022**

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

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

Fund financial statements report detailed information about the City. The accounts of the City are organized on the basis of funds each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that is comprised of its assets, liabilities, fund balance or net position, revenues and expenditures 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, 2022**

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

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

The City reports the following major proprietary funds:

**Gas Department Fund** - The gas department fund is used to account for the gas utility services provided to the residents and industries of the City, the operation of which is financed by user charges. The fund also collects user charges for transporting gas for producers and various gas companies.

**Water Department Fund** - The water department fund is used to account for the water utility services provided to the residents and industries of the City and area water districts, the operation of which is financed by user charges.

**Wastewater Department Fund** - The wastewater department fund is used to account for the wastewater utility services provided to the residents and industries of the City, the operation of which is financed by user charges.

**Sanitation Department Fund** - The sanitation department fund is used to account for the sanitation services provided to the residents and industries of the City, the operation of which is financed by user charges.

**Virginia Theater Fund** – The Virginia Theater fund is used to account for the theater’s events available to the residents of the City, the operation of which is financed by event revenue.

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, 2022**

**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	\$ 26,956	\$ -	\$ 51,211	\$ 206,626	\$ -	\$ 284,793
Prepays	8,815	-	-	-	-	8,815
Restricted						
Construction	732,114	-	-	-	-	732,114
Other	158,806	-	-	-	-	158,806
Road repair	-	-	-	-	58,729	58,729
Coal & mineral	-	-	-	-	18,028	18,028
Tourism	-	-	-	-	226,964	226,964
Unassigned	<u>1,120,394</u>	<u>(929,690)</u>	<u>(3,846,448)</u>	<u>(235,007)</u>	<u>-</u>	<u>(3,890,751)</u>
Total	<u>\$ 2,047,085</u>	<u>\$(929,690)</u>	<u>\$(3,795,237)</u>	<u>\$(28,381)</u>	<u>\$ 303,721</u>	<u>\$(2,402,502)</u>

**E. Pensions**

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

**F. Postemployment Benefits Other Than Pensions (OPEB)**

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

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

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

Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits. Certificates of deposit include all certificates owned by the City. 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.

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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

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

Capital Assets and Depreciation

General capital and leased 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 and leased 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. Leased assets are recorded at the amount of the initial measurement of the lease liability, plus any payments made at or before the commencement of the lease term. 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 that have an estimated useful life of at least two years. 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:

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

All leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset.

Compensated Absences

The City allows employees to accumulate unused sick leave to a maximum of 960 hours. Upon termination, employees in Tier 1 or Tier 2 of the Kentucky Public Pensions Authority are given the option of taking credit towards their retirement for accumulated sick days or taking payment for the accumulated days with a maximum of 480 hours to be paid out and then rolling over the rest. Employees in Tier 3 of the Kentucky Public Pensions Authority may be paid up to 480 hours sick hours at time of retirement but are not allowed any roll over hours to the retirement system. At termination employees can be paid for up to 320 hours of bonus leave. Earned vacation time is generally required to be used within one year. At time of termination vested but unused vacation leave will be paid out. The City's accrued liabilities for future compensated absences are recorded to the extent the future leave (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable and (4) where amounts can be reasonably estimated. The amount of vacation liability is included in the financial statements in the accrued liabilities total. The amount of sick leave due is not practicably determinable.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

**H. Budgeting**

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

In June of each year, the City Council adopts the annual fiscal year budgets for city operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

**I. Other Accounting Policies**

Interfund Transactions

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

Use of Estimates

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

**J. Change in Accounting Policy**

In June 2017, the GASB issued Statement No. 87, *Leases* which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee 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. The City implemented GASB 87 during the fiscal year ending June 30, 2022. These changes were incorporated in the City's June 30, 2022, financial statements and had no effect on the beginning net position of fund balances of the City.

**K. Management's Review of Subsequent Events**

The City has evaluated and considered the need to recognize or disclose subsequent events through December 7, 2022, 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, 2022, have not been evaluated by the City.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**2. CASH AND INVESTMENTS**

Custodial Credit Risks – Deposits

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

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2022 are as follows:

Carrying amount	\$ 16,251,104
Bank balance	\$ 16,735,054
FDIC Insurance	\$ 2,848,239
Bank Deposit Guaranty Bond	\$ 236,114
Invested in Federal Obligations	\$ 2,194,936
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	\$ 11,455,765
Uninsured and uncollateralized	\$ -

Investments

As of June 30, 2022, the City had a total of \$455,586 in investments. Investments consisted of shares purchased in the Kentucky League of Cities Investment Pool Plus Program (KLCIP) measured at net asset value. Shares held in the KLCIP are invested in short and intermediate-term U.S. Treasury Bonds.

**3. ACCOUNTS AND NOTES RECEIVABLE**

Accounts Receivable

Account receivables at June 30, 2022 for all funds of the City are as follows:

	<b>Accounts</b>	<b>Taxes</b>	<b>Licenses &amp; Permits</b>	<b>Intergov.</b>	<b>Other</b>	<b>Allowance</b>	<b>Total</b>
General Fund	\$ 144,201	\$ 27,745	\$ 1,828,006	\$ 40,497	\$ 436,389	\$ (144,201)	\$ 2,332,637
EMS Fund	1,199,352	-	-	-	-	(689,600)	509,752
Waterpark	36,482	-	-	-	4,583	-	41,065
Fuel Center	-	-	-	-	23,422	-	23,422
Other Gov.	-	23,610	-	31,800	-	-	55,410
Gas	468,295	-	-	-	161,950	-	630,245
Water	1,179,398	-	-	-	47,144	-	1,226,542
Wastewater	429,423	-	-	-	201,681	-	631,104
Sanitation	1,013,873	-	-	-	-	-	1,013,873
Virginia Theater	<u>7,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,695</u>
<b>Totals</b>	<b><u>\$ 4,478,719</u></b>	<b><u>\$ 51,355</u></b>	<b><u>\$ 1,828,006</u></b>	<b><u>\$ 72,297</u></b>	<b><u>\$ 875,169</u></b>	<b><u>\$ (833,801)</u></b>	<b><u>\$ 6,471,745</u></b>

Lease Receivables

On October 1, 2020 the City entered into a two year lease agreement with Vinland Energy Eastern, LLC to lease out the rights to operate a gas plant owned by the City. The City is reporting a lease receivable in the Gas Department totaling \$74,676. The City reported lease revenue totaling \$293,903 and interest revenue totaling \$6,097 for fiscal year 2022. The entire balance of the lease receivable is recorded as a current asset as the lease term is scheduled to terminate in fiscal year 2023.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**4. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables within governmental activities and business-type activities not eliminated for purposes of government-wide financial statements as of June 30, 2022 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
Fuel Center Fund	Gas Department	\$ 6,935
Fuel Center Fund	Water Department	5,702
Fuel Center Fund	Wastewater Department	6,229
Tourism & Travel	Virginia Theater	2,030
Gas Department	General Fund	(3,040,209)
Gas Department	Virginia Theater	(344)
Water Department	Gas Department	(778)
Water Department	General Fund	(5,175,063)
Water Department	Waterpark	(1,300,000)
Wastewater Department	Water Department	(250)
Water Department	Wastewater Department	1,219
Sanitation Department	Fuel Center	(45,121)
General Fund	Wastewater Department	185,751
Sanitation Department	General Fund	<u>(260,835)</u>
Internal balances, net		<u>\$ (9,614,734)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2022 are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	EMS Fund	\$ 1,352,406
General Fund	Waterpark	\$ 2,941,045
General Fund	Fuel Center	\$ 169,736
General Fund	Tourism & Travel	\$ 11,609
Fuel Center Fund	Waterpark	\$ 765
Fuel Center Fund	Travel and Tourism	\$ 167
Fuel Center Fund	General Fund	\$ 34,190
Fuel Center Fund	EMS Fund	\$ 11,838

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, 2022**

**5. CAPITAL ASSETS**

A summary of changes in the City's capital assets during the year ended June 30, 2022, is as follows:

	<b>June 30, 2021</b>	<b>Additions/ Transfers</b>	<b>Disposals/ Transfers</b>	<b>June 30, 2022</b>
<b>Governmental Activities</b>				
Capital assets not depreciated:				
Land	\$ 4,008,803	\$ 51,979	\$ (100,000)	\$ 3,960,782
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>387,818</u>	<u>313,409</u>	<u>(117,338)</u>	<u>583,889</u>
Totals	<u>4,407,689</u>	<u>365,388</u>	<u>(217,338)</u>	<u>4,555,739</u>
Capital assets that are depreciated:				
Infrastructure	37,281,224	1,202,587	-	38,483,811
Building and improvements	20,177,744	-	-	20,177,744
Vehicles	7,191,154	437,531	-	7,628,685
Equipment	2,794,073	53,822	(15,655)	2,832,240
Office equipment	1,029,100	42,730	-	1,071,830
Land improvements	1,434,124	-	-	1,434,124
Leased vehicles	420,984	602,797	(173,256)	850,525
Leased equipment	<u>257,318</u>	<u>-</u>	<u>-</u>	<u>257,318</u>
Totals	<u>70,585,721</u>	<u>2,339,467</u>	<u>(188,911)</u>	<u>72,736,277</u>
Total capital assets	<u>74,993,410</u>	<u>2,704,855</u>	<u>(406,249)</u>	<u>77,292,016</u>
Accumulated depreciation:				
Infrastructure	25,291,306	1,082,881	-	26,374,187
Buildings and improvements	5,367,672	566,898	-	5,934,570
Vehicles	4,422,672	483,507	-	4,906,179
Equipment	2,313,842	223,865	(11,334)	2,526,373
Office equipment	1,018,432	14,195	-	1,032,627
Land improvements	<u>1,157,238</u>	<u>35,802</u>	<u>-</u>	<u>1,193,040</u>
Totals	<u>39,571,162</u>	<u>2,407,148</u>	<u>(11,334)</u>	<u>41,966,976</u>
Accumulated amortization:				
Leased vehicles	-	281,730	(112,438)	169,292
Leased equipment	<u>-</u>	<u>72,264</u>	<u>-</u>	<u>72,264</u>
Totals	<u>-</u>	<u>353,994</u>	<u>(112,438)</u>	<u>241,556</u>
Total accumulated depreciation and amortization	<u>39,571,162</u>	<u>2,761,142</u>	<u>(123,772)</u>	<u>42,208,532</u>
<b>Capital Assets, Net</b>	<u>\$ 35,422,248</u>	<u>\$ (56,287)</u>	<u>\$ (282,477)</u>	<u>\$ 35,083,484</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**5. CAPITAL ASSETS (CONTINUED)**

	June 30, 2021	Additions/ Transfers	Disposals/ Transfers	June 30, 2022
<b>Business-type Activities</b>				
Capital assets not depreciated:				
Land	\$ 979,933	\$ 100,000	\$ -	\$ 1,079,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>1,256,083</u>	<u>5,044,651</u>	<u>(928,855)</u>	<u>5,371,879</u>
Totals	<u>2,383,038</u>	<u>5,144,651</u>	<u>(928,855)</u>	<u>6,598,834</u>
Capital assets that are depreciated:				
Utility plant and dist. system	91,511,497	392,998	-	91,904,495
Building and improvements	49,649,038	397,533	-	50,046,571
Vehicles	3,689,502	179,971	(612,949)	3,256,524
Equipment	3,570,050	11,449	-	3,581,499
Office equipment	915,159	-	-	915,159
Land improvements	114,227	-	-	114,227
Leased vehicles	230,948	480,587	(89,736)	621,799
Leased equipment	<u>-</u>	<u>800,945</u>	<u>-</u>	<u>800,945</u>
Totals	<u>149,680,421</u>	<u>2,263,483</u>	<u>(702,685)</u>	<u>151,241,219</u>
Total capital assets	<u>152,063,459</u>	<u>7,408,134</u>	<u>(1,631,540)</u>	<u>157,840,053</u>
Accumulated depreciation:				
Utility plant and dist. system	48,071,462	1,955,683	-	50,027,145
Buildings and improvements	16,294,727	1,001,788	-	17,296,515
Vehicles	2,254,072	262,614	(124,162)	2,392,524
Equipment	2,614,525	172,446	-	2,786,971
Office equipment	446,529	20,192	-	466,721
Land improvements	<u>49,173</u>	<u>2,776</u>	<u>-</u>	<u>51,949</u>
Totals	<u>69,730,488</u>	<u>3,415,499</u>	<u>(124,162)</u>	<u>73,021,825</u>
Accumulated amortization:				
Leased vehicles	-	183,462	(57,980)	125,482
Leased equipment	<u>-</u>	<u>146,840</u>	<u>-</u>	<u>146,840</u>
Totals	<u>-</u>	<u>330,302</u>	<u>(57,980)</u>	<u>272,322</u>
Total accumulated depreciation and amortization	<u>69,730,488</u>	<u>3,745,801</u>	<u>(182,142)</u>	<u>73,294,147</u>
<b>Capital Assets, Net</b>	<u>\$ 82,332,971</u>	<u>\$ 3,662,333</u>	<u>\$ (1,449,398)</u>	<u>\$ 84,545,906</u>



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

**5. CAPITAL ASSETS (CONTINUED)**

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

**Primary Government**

Governmental Activities

Waterpark	\$ 647,762
Streets	619,513
Public Safety	388,473
General Government	373,758
Emergency Medical Services	168,717
Parks and Recreation	174,684
Fuel Center	28,497
Cemetery	1,986
Travel & Tourism	<u>3,758</u>

\$ 2,407,148

Business-Type Activities

Water	\$ 1,579,765
Wastewater	1,084,031
Gas	505,126
Sanitation	<u>246,577</u>

\$ 3,415,499

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

**Primary Government**

Governmental Activities

Waterpark	\$ 5,562
Streets	54,313
Public Safety	204,001
General Government	58,003
Emergency Medical Services	8,954
Parks and Recreation	<u>23,161</u>

\$ 353,994

Business-Type Activities

Water	\$ 29,995
Wastewater	58,807
Gas	220,453
Sanitation	<u>21,047</u>

\$ 330,302

**6. LONG-TERM DEBT**

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2022:

Description	Balance June 30, 2021	Issued/ Transfers	Retired	June 30, 2022	Due within One year
<b>Primary Government</b>					
<u>Governmental Activities</u>					
<u>General Fund</u>					
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 3,993,857	\$ -	\$ 3,993,857	\$ -	\$ -
Direct Borrowing - Street sweeper loan with interest at 3.50% maturing in FY 2023	44,897	-	38,369	6,528	6,528
Series 2021 with interest at 2.00% to 5.00% maturing in fiscal year 2041	5,580,000	(3,422,000)	179,000	1,979,000	184,000
Series 2021 Bond Premium	476,555	(176,473)	15,005	285,077	30,938
Series 2020 with interest at 2.00% to 3.00% maturing in fiscal year 2045	8,360,000	-	260,000	8,100,000	270,000
Series 2020 Bond Premium	274,858	-	14,466	260,392	14,466

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

Description	Balance June 30, 2021	Issued/ Transfers	Retired	June 30, 2022	Due within One year
<b>Primary Government, continued</b>					
<b><u>Governmental Activities, continued</u></b>					
<b><u>General Fund, continued</u></b>					
Direct Borrowing - Police car loan with interest at 2.00% to 3.00% maturing in fiscal year 2026	\$ 193,309	\$ -	\$ 39,195	\$ 154,114	\$ 39,982
Direct Borrowing - Cinder pumper loan with interest at 2.31% maturing in fiscal year 2031	553,998	-	52,692	501,306	53,940
Series 2021 GO Refunding with interest at 2.80% maturing in fiscal year 2032	-	3,822,724	76,892	3,748,742	329,243
Monticello Commercial Loan with interest at 1.97% maturing in fiscal year 2023	-	145,444	-	145,444	145,444
<b>EMS</b>					
Direct Borrowing – Ambulance loan with interest at 4.15% maturing in fiscal year 2023	51,693	-	25,415	26,278	26,278
Direct Borrowing – Ambulance loan with interest at 2.31% maturing in fiscal year 2026	142,007	-	31,478	110,529	32,254
Direct Borrowing – Equipment loan with interest at 2.31% maturing in fiscal year 2026	198,180	-	66,060	132,120	66,060
<b>Waterpark</b>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	1,374,561	-	1,374,561	-	-
Series 2021 GO with interest at 2.0 to 5.0% maturing in fiscal year 2041	-	594,000	50,000	544,000	51,000
Series 2021 GO Refunding with interest at 2.80% maturing in fiscal year 2032	-	1,314,216	25,436	1,288,780	113,191
<b>Net pension liability</b>	<u>38,705,105</u>	<u>-</u>	<u>4,031,593</u>	<u>34,673,512</u>	<u>-</u>
<b>Net OPEB liability</b>	<u>11,928,007</u>	<u>-</u>	<u>1,421,767</u>	<u>10,506,240</u>	<u>-</u>
<b>Lease liability</b>	<u>678,302</u>	<u>602,797</u>	<u>392,636</u>	<u>888,463</u>	<u>297,162</u>
<b>Total governmental activities</b>	<b><u>\$ 72,555,329</u></b>	<b><u>\$ 2,880,708</u></b>	<b><u>\$ 12,085,512</u></b>	<b><u>\$ 63,350,525</u></b>	<b><u>\$ 1,660,486</u></b>
<b><u>Business-type Activities</u></b>					
<b><u>Gas Department</u></b>					
Series 2011 GO with interest at 2.1% to 4.25% maturing in fiscal year 2032	\$ 630,086	\$ -	\$ 630,086	\$ -	\$ -
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0% maturing in FY 2034	22,594	-	1,619	20,975	1,653

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

Description	Balance June 30, 2021	Issued/ Transfers	Retired	June 30, 2022	Due within One year
<b>Primary Government, continued</b>					
<b><u>Business-type Activities, continued</u></b>					
<b><u>Gas Department, continued</u></b>					
Direct Borrowing - Note payable local bank with interest at 2.48%, maturing in FY 2026	\$ 24,748	\$ -	\$ 5,365	\$ 19,383	\$ 5,502
Direct Borrowing – Cumberland Security loan with interest at 2.85%, maturing in FY 2024	59,734	-	25,108	34,626	25,843
Direct Borrowing – Cumberland Security loan with interest at 2.79%, maturing in FY 2024	27,781	-	11,266	16,515	11,589
Series 2021 GO Refunding with interest at 2.80% maturing in FY 2032	<u>-</u>	<u>605,966</u>	<u>11,725</u>	<u>594,241</u>	<u>52,191</u>
Total Gas Department	<u>\$ 764,943</u>	<u>\$ 605,966</u>	<u>\$ 685,169</u>	<u>\$ 685,740</u>	<u>\$ 96,778</u>
<b><u>Water Department</u></b>					
Series 2012 with interest at 2.125% maturing in FY 2052	\$ 12,263,000	\$ -	\$ 272,000	\$ 11,991,000	\$ 278,500
Direct Borrowing - KIA loan with interest at .5% maturing in FY 2055	-	1,198,563	-	1,198,563	-
Direct Borrowing – Cumberland Valley Note with interest at 2.5%, maturing in FY 2022	47,201	-	47,201	-	-
Direct Borrowing – Citizens National Bank loan with interest at 2.75%, maturing in FY 2024	18,302	-	6,929	11,373	7,125
Direct Borrowing – Cumberland Security Bank loan with interest at 3.79% maturing in FY 2024	20,765	-	7,539	13,226	7,834
Series 2021 GO with interest at 2.00 to 5.00% maturing in FY 2041	3,296,000	-	156,000	3,140,000	162,000
Series 2021 GO Bond Premium	318,682	-	15,934	302,748	15,934
Direct Borrowing – Citizens National Bank loan with interest at 2.35%, maturing in FY 2026	206,150	-	46,648	159,502	47,772
Direct Borrowing - Monticello Bank loan with interest at 2.50% to 5.00% maturing in FY 2026	<u>48,815</u>	<u>-</u>	<u>10,425</u>	<u>38,390</u>	<u>10,662</u>
Total Water Department	<u>\$ 16,218,915</u>	<u>\$ 1,198,563</u>	<u>\$ 562,676</u>	<u>\$ 16,854,802</u>	<u>\$ 529,827</u>
<b><u>Wastewater Department</u></b>					
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 1,072,675	\$ -	\$ 1,072,675	\$ -	\$ -
Direct Borrowing – KIA Loan with interest at 1%, maturing in fiscal year 2032	5,274,959	-	398,216	4,876,743	402,209
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0%, maturing in FY 2034	256,004	-	18,348	237,656	18,718

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

Description	Balance June 30, 2021	Issued/ Transfers	Retired	June 30, 2022	Due within One year
<b>Primary Government, continued</b>					
<b><u>Business-type Activities, continued</u></b>					
<b><u>Wastewater Department, continued</u></b>					
Series 2021 GO with interest at 2.0% to 5.0%, maturing in FY 2041	\$ 2,789,000	\$ -	\$ 131,000	\$ 2,658,000	\$ 133,000
Series 2021 Bond Premium	259,551	-	12,978	246,573	12,978
Series 2021 GO Bond Refunding with interest at 2.80%, maturing in fiscal year 2032	-	1,026,094	19,858	1,006,236	88,374
<b>Total Wastewater Department</b>	<b><u>\$ 9,652,189</u></b>	<b><u>\$ 1,026,094</u></b>	<b><u>\$ 1,653,075</u></b>	<b><u>\$ 9,025,208</u></b>	<b><u>\$ 655,279</u></b>
<b><u>Sanitation Department</u></b>					
Direct Borrowing – Cumberland Valley National Bank loan with interest at 3.5%, maturing in fiscal year 2023	\$ 81,623	\$ -	\$ 57,195	\$ 24,428	\$ 24,428
Direct Borrowing - Note payable to local bank with interest at 3.85%, maturing in FY 2024	77,459	-	30,082	47,377	31,276
Direct Borrowing – Citizens National Bank loan with interest at 2.36%, maturing in FY 2026	136,550	-	30,269	106,281	31,001
Direct Borrowing – Magnolia Bank loan with interest at 3.75%, maturing in FY 2023	407,997	-	-	407,997	407,997
Direct Borrowing - KACO Leasing Trust loan with interest at 2.12%, maturing in FY 2022	159,981	-	159,981	-	-
Direct Borrowing - Magnolia Bank loan with interest at 2.15%, maturing in FY 2022	242,526	-	242,526	-	-
Direct Borrowing - Magnolia Bank loan with interest at 2.12%, maturing in FY 2022	159,981	-	159,981	-	-
Direct Borrowing Monticello Bank loan with interest at 2.49%, maturing in fiscal year 2023	-	159,022	-	159,022	159,022
<b>Total Sanitation Department</b>	<b><u>\$ 1,266,117</u></b>	<b><u>\$ 159,022</u></b>	<b><u>\$ 680,034</u></b>	<b><u>\$ 745,105</u></b>	<b><u>\$ 653,724</u></b>
<b><u>Virginia Theater Fund</u></b>					
Series 2021 GO with interest at 2.0% to 5.0% maturing in fiscal year 2031	\$ -	\$ 2,828,000	\$ 94,000	\$ 2,734,000	\$ 95,000
Premium on Series 2021 GO	-	176,474	8,824	167,650	8,824
<b>Total Virginia Theatre Fund</b>	<b><u>\$ -</u></b>	<b><u>\$ 3,004,474</u></b>	<b><u>\$ 102,824</u></b>	<b><u>\$ 2,901,650</u></b>	<b><u>\$ 103,824</u></b>
<b>Net pension liability</b>	<b><u>\$ 9,815,230</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,139,208</u></b>	<b><u>\$ 8,676,022</u></b>	<b><u>\$ -</u></b>
<b>Net OPEB liability</b>	<b><u>\$ 3,090,058</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 485,531</u></b>	<b><u>\$ 2,604,527</u></b>	<b><u>\$ -</u></b>
<b>Lease Liability</b>	<b><u>\$ 230,948</u></b>	<b><u>\$ 1,281,532</u></b>	<b><u>\$ 342,237</u></b>	<b><u>\$ 1,170,243</u></b>	<b><u>\$ 306,123</u></b>
<b>Total Business-type activities</b>	<b><u>\$ 41,038,400</u></b>	<b><u>\$ 7,275,651</u></b>	<b><u>\$ 5,650,754</u></b>	<b><u>\$ 42,663,297</u></b>	<b><u>\$ 2,345,555</u></b>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

The Series 2011 Bond issue was dated November 1, 2011 in the amount of \$8,810,000 and carried 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 Series 2011 Bond issue was refinanced during fiscal year 2022 with the Series 2021 GO Refunding Bond issue on October 29, 2021 in the amount of \$6,769,000 with interest at 2.8%. The issue is included on the statement of net position under long-term debt as follows:

General	\$ 3,748,742
Waterpark	1,288,780
Gas department	594,241
Wastewater department	<u>1,006,237</u>
 Total	 <u>\$ 6,638,000</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, waterpark, water department, wastewater department, Virginia Theater, and to be determined future capital projects. The issue is included on the statement of net position under long-term debt as follows:

General	\$ 1,979,000
Waterpark	544,000
Water department	3,140,000
Wastewater department	2,658,000
Virginia Theater	<u>2,734,000</u>
 Total	 <u>\$ 11,055,000</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 lease liabilities, net pension liability and the net OPEB liability are as follows):

**Governmental Activities**

Year ended	Principal	Interest	Total
2023	\$ 1,363,324	\$ 425,354	\$ 1,788,678
2024	1,200,105	385,566	1,585,671
2025	1,167,361	355,481	1,522,842
2026	1,171,900	321,002	1,492,902
2027	1,158,498	286,171	1,444,669
2028-2032	5,320,288	956,821	6,277,109
2033-2037	2,274,350	502,218	2,776,568
2038-2042	2,357,414	280,863	2,638,277
2043-2047	<u>1,269,070</u>	<u>56,870</u>	<u>1,325,940</u>
	<u>\$ 17,282,310</u>	<u>\$ 3,570,346</u>	<u>\$ 20,852,656</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

**Business-type Activities**

Year ended	Principal	Interest	Total
2023	\$ 2,039,432	\$ 662,787	\$ 2,702,219
2024	1,435,341	582,758	2,018,099
2025	1,429,350	549,205	1,978,555
2026	1,391,264	515,553	1,906,817
2027	1,397,086	483,285	1,880,371
2028-2032	7,568,693	1,855,125	9,423,818
2033-2037	5,493,833	1,140,986	6,634,819
2038-2042	3,300,943	715,476	4,016,419
2043-2047	2,338,000	429,781	2,767,781
2048-2052	<u>2,620,000</u>	<u>169,320</u>	<u>2,789,320</u>
	29,013,942	7,104,276	36,118,218
KIA Water Loan	<u>1,198,563</u>	<u>-</u>	<u>1,198,563</u>
Totals	<u>\$ 30,212,505</u>	<u>\$ 7,104,276</u>	<u>\$ 37,316,781</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, 2022 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2022, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

**7. LEASE LIABILITIES**

**Governmental Activities**

One March 10, 2020 the City entered into a lease agreement for a phone system. The lease calls for monthly payments of \$1,090 over a period of 60 months and bears interest at 3%. The balance of the lease liability as of June 30, 2022 totaled \$34,481.

As of June 30, 2022, the City has entered into five separate lease agreements for copiers which are utilized by various departments throughout the City. The term of these lease agreements varies from 60-63 months. Monthly payments due on the copier leases total \$5,233 and bear interest at 2.6%. The balance of the liability related to the copier leases as of June 30, 2022 totaled \$152,988.

On September 30, 2016 the City entered into a master lease agreement with Enterprise FM Trust. The agreement allows the City to enter into separate individual lease agreements for vehicles as needed. The lease term for the vehicle leases ranges from 48-72 months. The interest rates for the vehicle leases range from 2.9 – 5.71%. The balance of the liability related to the vehicle leases as of June 30, 2022 totaled \$700,994.

Annual requirements to maturity for all governmental long-term lease obligations are as follows:

Year ended	Principal	Interest	Total
2023	\$ 297,162	\$ 14,578	\$ 311,740
2024	247,244	12,227	259,471
2025	174,425	6,256	180,681
2026	125,511	5,784	131,295
2027	<u>44,121</u>	<u>3,744</u>	<u>47,865</u>
	<u>\$ 888,463</u>	<u>\$ 42,589</u>	<u>\$ 931,052</u>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**7. LEASE LIABILITIES**

Business-type Activities

One June 9, 2021, the City entered into a lease agreement for a gas compressor with USA Compression. The lease calls for monthly payments of \$14,250 over a period of 60 months and bears interest at 2.6%. The balance of the lease liability as of June 30, 2022 totaled \$661,783.

On September 30, 2016 the City entered into a master lease agreement with Enterprise FM Trust. The agreement allows the City to enter into separate individual lease agreements for vehicles as needed. The lease term for the vehicle leases ranges from 48-60 months. The interest rates for the vehicle leases range from 2.97 – 5.37%. The balance of the liability related to the vehicle leases as of June 30, 2022 totaled \$508,460.

Annual requirements to maturity for all business-type long-term lease obligations are as follows:

Year ended	Principal	Interest	Total
2023	\$ 306,123	\$ 22,081	\$ 328,204
2024	272,207	15,889	288,096
2025	270,322	11,272	281,594
2026	274,563	7,029	281,592
2027	<u>47,028</u>	<u>2,579</u>	<u>49,607</u>
	<u>\$ 1,170,243</u>	<u>\$ 58,850</u>	<u>\$ 1,229,093</u>

**8. 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 Public Pensions Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pensions Authority 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, 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, 2022, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

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, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications and 44.33% of each employee's wages for hazardous job classifications.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**8. RETIREMENT PLAN (CONTINUED)**

The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 9. Plan members contributed 21.17% to the pension trust for non-hazardous job classifications and 33.86% 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 Public Pensions Authority 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, 2022, the City contributed \$1,453,842 or 100% of the required contribution for non-hazardous job classifications, and \$2,207,213, for the year ended June 30, 2022, 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 Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old and 4 years service At least 5 years service and 55 years old or 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 - December 31, 2013 At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+ At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old or age 57+ with sum of service years plus age equal to 87+ Not available

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



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**8. 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, 2022, the City reported a liability for its proportionate share of the net pension liability as follows:

<b>Total Net Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
\$ <u>43,349,534</u>	\$ <u>15,733,332</u>	\$ <u>27,616,202</u>

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, 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, 2021, was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.247%	1.040%

The proportionate share at June 30, 2021 relative to June 30, 2020 increased for non-hazardous by .013% and increased for hazardous by .027%.

For the year ended June 30, 2022, the City recognized pension expense of \$5,166,008. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 942,230	\$ 152,703
Changes of assumptions	556,078	-
Net difference between projected and actual earnings on Plan investments	-	5,061,643
Changes in proportion and differences between City contributions and proportionate share of contributions	2,664,831	221,543
City contributions subsequent to the measurement date	<u>3,607,231</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>7,770,370</u></b>	<b>\$ <u>5,435,889</u></b>

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**8. RETIREMENT PLAN (CONTINUED)**

The \$3,607,231 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2023	\$ 562,728
2024	\$ 193,704
2025	\$ (540,458)
2026	\$ (1,488,724)

*Actuarial Assumptions* – The total pension liability in the June 30, 2021, 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 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2021, 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, 2020) to the plan's fiscal year ending June 30, 2021. 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, 2022**

**8. 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Growth</b>	<b>68.50%</b>	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
<b>Liquidity</b>	<b>11.50%</b>	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
<b>Diversifying Strategies</b>	<b>20.00%</b>	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	11.00%	4.55%
<b>Total</b>	<b>100.00%</b>	<b>5.00%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>7.30%</b>

*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 closed 30-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:

	<b>Non-hazardous</b>		<b>Hazardous</b>	
	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>	<b>Discount rate</b>	<b>City's proportionate share of net pension liability</b>
1% decrease	5.25%	\$ 20,178,744	5.25%	\$ 35,200,682
Current discount rate	6.25%	\$ 15,733,332	6.25%	\$ 27,616,202
1% increase	7.25%	\$ 12,054,857	7.25%	\$ 21,434,882

*Payable to the Pension Plan* – At June 30, 2022, the City reported a payable of \$614,563 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022. The payable includes both the pension and insurance contribution allocation.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

*Plan Description* – As more fully described in Note 8, 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 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2022, the employer’s contribution was 5.78% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers 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 Public Pensions Authority are financed through employer contributions and investment earnings.

For the year ended June 30, 2022, the City contributed \$396,939, or 100% of the required contribution for non-hazardous job classifications, and \$682,502, 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, 2022**

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

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2022, the City reported a liability for its proportionate share of the net OPEB liability as follows:

<b>Total Net Pension Liability</b>	<b>Non-hazardous</b>	<b>Hazardous</b>
<u>\$ 13,110,767</u>	<u>\$ 4,723,120</u>	<u>\$ 8,387,647</u>

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 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, 2021, was as follows:

<b>Non-hazardous</b>	<b>Hazardous</b>
.247%	1.037%

The proportionate share at June 30, 2021 relative to June 30, 2020 for non-hazardous increased by .013% and hazardous increased by .024%.

For the year ended June 30, 2022, the City recognized OPEB expense of \$1,650,849. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual results	\$ 1,004,812	\$ 2,312,541
Changes of assumptions	3,355,620	7,526
Net difference between projected and actual earnings on Plan investments	-	2,317,611
Changes in proportion and differences between City contributions and proportionate share of contributions	794,158	215,135
City contributions subsequent to the measurement date	<u>1,282,102</u>	<u>-</u>
Total	<u>\$ 6,436,692</u>	<u>\$ 4,852,813</u>

The \$1,282,102 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, 2023. This includes adjustments of \$155,410 for the nonhazardous implicit subsidy and \$59,734 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<b>Year ending June 30,</b>		
2023	\$	77,960
2024	\$	164,917
2025	\$	134,816
2026	\$	(276,769)
2027	\$	200,853

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

*Actuarial Assumptions* – The total OPEB liability in the June 30, 2021, 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
Healthcare trend	
Pre – 65:	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years

**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
Healthcare trend	
Pre – 65:	Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 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 assumptions used in the June 30, 2020 valuation were 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, 2020) to the plan's fiscal year ending June 30, 2021.

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, 2022

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Growth</b>	<b>68.50%</b>	
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Special credit/high yield	15.00%	2.80%
<b>Liquidity</b>	<b>11.50%</b>	
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
<b>Diversifying Strategies</b>	<b>20.00%</b>	
Real Estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real Return	10.00%	4.55%
<b>Total</b>	<b>100.00%</b>	<b>5.00%</b>
<b>Long term inflation assumption</b>		<b>2.30%</b>
<b>Expected nominal return for portfolio</b>		<b>7.30%</b>

*Discount Rate* – The discount rate used to measure the total OPEB liability was 5.20% and 5.05% 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	4.20%	\$ 6,484,809	4.05%	\$ 12,160,496
Current discount rate	5.20%	\$ 4,723,120	5.05%	\$ 8,387,647
1% increase	6.20%	\$ 3,277,363	6.05%	\$ 5,356,380

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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

*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:

	<b>Non-hazardous</b>	<b>Hazardous</b>
	<b>City's proportionate share of net OPEB liability</b>	<b>City's proportionate share of net OPEB liability</b>
1% decrease	\$ 3,400,085	\$ 5,496,043
Current trend rate	\$ 4,723,120	\$ 8,387,647
1% increase	\$ 6,320,044	\$ 11,929,172

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

**10. PROPERTY TAX CALENDAR**

Property taxes for fiscal year 2022 were levied in September 2021 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:

<b>Description</b>	<b>Per K.R.S. 134.020</b>
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.

**11. TRANSFER OF FUNDS**

The following transfers were made during the year:

<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
EMS	General	Administration	\$ 50,000
Gas	General	General operations	\$ 2,900,000
Gas	EMS	General operations	\$ 300,000
Water	EMS	General operations	\$ 300,000
Water	General	General operations	\$ 1,500,000
Sanitation	EMS	General operations	\$ 300,000
General Fund	Virginia Theater	Capital projects	\$ 3,116,879
Governmental Activities	Virginia Theater	Capital assets	\$ 217,338
Virginia Theater	Governmental Activities	Debt transfer	\$ 3,004,474
General Fund	Water Park	Capital projects	\$ 675,000
Sanitation	Travel & Tourism	General Operations	\$ 62,511
Sanitation	Water Park	General operations	\$ 418,000



**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2022**

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**12. CONDUIT DEBT**

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City, payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2022, 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**

Since 2020, various restrictions have been 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 continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the City. Restrictions placed on the City 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 LOANS**

On September 8, 2022, the City took out a loan totaling \$45,750 to finance the purchase of a leaf loader for the street department. The loan is to be paid over 60 months and bears interest at 2.91%.

On September 8, 2022, the City took out a loan totaling \$39,000 to finance the purchase of a vehicle for the fire department. The loan is to be paid over 60 months and bears interest at 2.91%.

On August 23, 2022, the City took out a loan totaling \$315,000 to finance the purchase of six vehicles for the police department. The loan is to be paid over 60 months and bears interest at 2.6%.

On July 20, 2022, the City took out a loan totaling \$479,459 to finance the purchase of two sanitation trucks for the sanitation department. The loan is to be paid over 18 months and bears interest at 2.625%.

On October 10, 2022, the City took out a loan totaling \$482,480 to finance the purchase of two sanitation trucks for the sanitation department. The loan is to be paid over 18 months and bears interest at 3.0%.

On November 23, 2022, the City took out a loan totaling \$172,589 to finance the purchase of a dump truck. The loan is to be repaid over 18 months and bears interest at 3.99%.

On November 15, 2022, the City financed the purchase of equipment for the EMS department. The City is scheduled to make monthly interest free payments totaling \$2,557.92 for a period of 36 months.

On November 23, 2022, the City took out a loan to finance the purchase of a vehicle for the water department. The loan is to be paid over 60 months and bears interest at 3.75%.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**GENERAL FUND**  
**for the year ended June 30, 2022**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Taxes	\$ 1,623,500	\$ 1,623,500	\$ 1,667,433	\$ 43,933
Licenses and permits	8,077,500	8,627,500	9,086,614	459,114
Fines and forfeits	40,000	40,000	27,405	(12,595)
Charges for services	637,000	637,000	579,122	(57,878)
Intergovernmental	3,181,283	6,271,383	4,413,373	(1,858,010)
Interest income	30,000	30,000	22,090	(7,910)
Other revenues	<u>1,183,000</u>	<u>1,183,000</u>	<u>1,246,063</u>	<u>63,063</u>
<b>TOTAL REVENUES</b>	<u>14,772,283</u>	<u>18,412,383</u>	<u>17,042,100</u>	<u>(1,370,283)</u>
<b>EXPENDITURES</b>				
General administration	6,573,150	6,309,250	4,727,416	(1,581,834)
Public safety	10,468,250	10,225,250	9,826,375	(398,875)
Public services	497,500	497,500	301,573	(195,927)
Streets	1,326,100	1,326,100	1,285,630	(40,470)
Parks and recreation	1,812,700	1,812,700	1,167,093	(645,607)
Cemetery	135,900	135,900	127,076	(8,824)
Downtown revitalization	78,000	78,000	10,003	(67,997)
Intergovernmental programs	316,925	316,925	119,338	(197,587)
Capital outlay	2,710,000	2,710,000	1,555,123	(1,154,877)
Debt service - principal	1,207,641	4,785,484	4,785,484	-
Debt service - interest	735,349	1,475,106	631,984	(843,122)
Bond issuance cost	<u>-</u>	<u>-</u>	<u>51,562</u>	<u>51,562</u>
<b>TOTAL EXPENDITURES</b>	<u>25,861,515</u>	<u>29,672,215</u>	<u>24,588,657</u>	<u>(5,083,558)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of debt	-	3,968,300	4,570,965	602,665
Proceeds from sale of capital assets	-	-	182,480	182,480
Transfer from other funds	4,450,000	4,450,000	4,450,000	-
Transfer to other funds	<u>-</u>	<u>(3,797,700)</u>	<u>(3,791,879)</u>	<u>5,821</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>4,450,000</u>	<u>4,620,600</u>	<u>5,411,566</u>	<u>790,966</u>
<b>NET CHANGE IN FUND BALANCE</b>	(6,639,232)	(6,639,232)	(2,134,991)	4,504,241
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>6,639,232</u>	<u>6,639,232</u>	<u>4,182,076</u>	<u>(2,457,156)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,047,085</u>	<u>\$ 2,047,085</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**EMS FUND**  
**for the year ended June 30, 2022**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 3,329,000	\$ 3,329,000	\$ 3,593,947	\$ 264,947
Intergovernmental revenues	2,094,500	2,094,500	1,529,390	(565,110)
Interest income	600	600	938	338
Other revenues	<u>32,000</u>	<u>32,000</u>	<u>50,802</u>	<u>18,802</u>
<b>TOTAL REVENUES</b>	<u>5,456,100</u>	<u>5,456,100</u>	<u>5,175,077</u>	<u>(281,023)</u>
<b>EXPENDITURES</b>				
Emergency medical services	6,712,000	6,712,000	5,709,523	(1,002,477)
Capital outlay	320,000	320,000	-	(320,000)
Debt service - principal	66,060	66,060	66,060	-
Debt service - interest	<u>133,040</u>	<u>133,040</u>	<u>62,078</u>	<u>(70,962)</u>
<b>TOTAL EXPENDITURES</b>	<u>7,231,100</u>	<u>7,231,100</u>	<u>5,837,661</u>	<u>(1,393,439)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	1,800,000	1,800,000	900,000	(900,000)
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,775,000</u>	<u>1,775,000</u>	<u>850,000</u>	<u>(925,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	187,416	187,416
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>(1,117,106)</u>	<u>(1,117,106)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (929,690)</u>	<u>\$ (929,690)</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**WATERPARK FUND**  
**for the year ended June 30, 2022**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,670,200	\$ 1,787,900	\$ 2,026,072	\$ 238,172
Interest income	300	300	770	470
Other revenues	<u>30,000</u>	<u>30,000</u>	<u>29,903</u>	<u>(97)</u>
<b>TOTAL REVENUES</b>	<u>1,700,500</u>	<u>1,818,200</u>	<u>2,056,745</u>	<u>238,545</u>
<b>EXPENDITURES</b>				
Waterpark	1,950,500	1,775,500	1,637,707	(137,793)
Capital Outlay	-	912,300	906,996	(5,304)
Debt service - principal	-	1,399,997	1,399,997	-
Debt service - interest	<u>43,000</u>	<u>138,403</u>	<u>141,577</u>	<u>3,174</u>
<b>TOTAL EXPENDITURES</b>	<u>1,993,500</u>	<u>4,226,200</u>	<u>4,086,277</u>	<u>(139,923)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from issuance of debt	-	1,315,000	1,314,216	(784)
Transfer from other funds	<u>293,000</u>	<u>1,093,000</u>	<u>1,093,000</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>293,000</u>	<u>2,408,000</u>	<u>2,407,216</u>	<u>(784)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	377,684	377,684
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>(4,172,921)</u>	<u>(4,172,921)</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,795,237)</u>	<u>\$ (3,795,237)</u>

**CITY OF SOMERSET, KENTUCKY**  
**REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON**  
**FUEL CENTER FUND**  
**for the year ended June 30, 2022**

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>				
Charges for services	\$ 1,144,000	\$ 1,424,000	\$ 1,315,196	\$ (108,804)
Interest income	<u>100</u>	<u>100</u>	<u>163</u>	<u>63</u>
<b>TOTAL REVENUES</b>	<u>1,144,100</u>	<u>1,424,100</u>	<u>1,315,359</u>	<u>(108,741)</u>
<b>EXPENDITURES</b>				
Fuel center	1,144,100	1,424,100	1,352,630	(71,470)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL EXPENDITURES</b>	<u>1,144,100</u>	<u>1,424,100</u>	<u>1,352,630</u>	<u>(71,470)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(37,271)	(37,271)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>-</u>	<u>-</u>	<u>8,890</u>	<u>8,890</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,381)</u>	<u>\$ (28,381)</u>

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

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2014 (2013)</b>	<b>2015 (2014)</b>	<b>2016 (2015)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>	<b>2021 (2020)</b>	<b>2022 (2021)</b>
City's proportion of the net pension liability	0.257%	0.257%	0.266%	0.247%	0.253%	0.251%	0.243%	0.234%	0.247%
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	\$ 15,733,332
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
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%	241.83%
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%	57.33%

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 Nine Fiscal Years**

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2014 (2013)</b>	<b>2015 (2014)</b>	<b>2016 (2015)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>	<b>2021 (2020)</b>	<b>2022 (2021)</b>
City's proportion of the net pension liability	0.923%	0.923%	0.922%	0.882%	0.908%	0.904%	0.905%	1.013%	1.040%
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	\$ 27,616,202
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
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%	444.53%
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%	52.26%

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



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

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
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	\$ 1,453,842
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>	<u>1,453,842</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,867,462
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%	21.17%

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

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	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required employer contribution	\$ 948,760	\$ 1,016,016	\$ 1,002,090	\$ 924,463	\$ 1,066,417	\$ 1,115,070	\$ 1,275,458	\$ 1,781,641	\$ 1,867,445	\$ 2,207,213
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>	<u>2,207,213</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,518,645
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%	33.86%

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

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>	<b>2021 (2020)</b>	<b>2022 (2021)</b>
City's proportion of the net OPEB liability	0.247%	0.253%	0.251%	0.243%	0.234%	0.247%
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	\$ 4,723,120
City's covered employee payroll	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406	\$ 6,506,027
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%	72.60%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%

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 Six Fiscal Years**

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<b>Reporting Fiscal Year (Measurement Date)</b>	<b>2017 (2016)</b>	<b>2018 (2017)</b>	<b>2019 (2018)</b>	<b>2020 (2019)</b>	<b>2021 (2020)</b>	<b>2022 (2021)</b>
City's proportion of the net OPEB liability	0.882%	0.908%	0.904%	0.905%	1.013%	1.037%
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	\$ 8,387,647
City's covered employee payroll	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948	\$ 6,212,394
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%	135.01%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%	66.81%

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

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

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Contractually required employer contribution	\$ 370,875	\$ 301,758	\$ 310,632	\$ 271,867	\$ 292,914	\$ 293,538	\$ 331,078	\$ 294,473	\$ 309,687	\$ 396,939
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>	<u>396,939</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,867,462
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%	5.78%

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

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required employer contribution	\$ 826,035	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954	\$ 564,245	\$ 591,420	\$ 682,502
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>	<u>682,502</u>
Contribution deficiency (excess)	<u>\$ -</u>	<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	\$ 6,518,645
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%	10.47%

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2022**

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**1. GENERAL INFORMATION**

**Contributions**

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

**Payroll**

The City'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, 2021 – 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, 2021, for CERS pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

**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.

**CITY OF SOMERSET, KENTUCKY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2022**

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

**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.

**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, 2022**

	<u>Municipal Aid Projects Fund</u>	<u>Coal &amp; Mineral Severance Fund</u>	<u>Travel &amp; Tourism Fund</u>	<u>2022 Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 35,616	\$ 9,341	\$ 231,956	\$ 276,913
Receivables, net	23,113	8,687	23,610	55,410
Due from other funds	-	-	2,030	2,030
Prepaid expenses	-	-	-	-
	<u>58,729</u>	<u>18,028</u>	<u>257,596</u>	<u>334,353</u>
Total assets	<u>\$ 58,729</u>	<u>\$ 18,028</u>	<u>\$ 257,596</u>	<u>\$ 334,353</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 4,259	\$ 4,259
Due to other funds	-	-	11,776	11,776
Unearned revenue	-	-	200	200
Other current liabilities	-	-	14,397	14,397
	<u>-</u>	<u>-</u>	<u>30,632</u>	<u>30,632</u>
Total liabilities	-	-	30,632	30,632
Fund balance	<u>58,729</u>	<u>18,028</u>	<u>226,964</u>	<u>303,721</u>
Total liabilities and fund balance	<u>\$ 58,729</u>	<u>\$ 18,028</u>	<u>\$ 257,596</u>	<u>\$ 334,353</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, 2022**

	<b>Municipal Aid Projects Fund</b>	<b>Coal &amp; Mineral Severance Fund</b>	<b>Travel &amp; Tourism Fund</b>	<b>2022 Total</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ 246,076	\$ 246,076
Charges for services	-	-	-	-
Intergovernmental revenues	221,629	32,058	-	253,687
Interest income	294	34	-	328
Other revenues	-	-	76,611	76,611
<b>Total revenues</b>	<u>221,923</u>	<u>32,092</u>	<u>322,687</u>	<u>576,702</u>
<b>EXPENDITURES</b>				
Current				
Streets	123,025	-	-	123,025
Travel and tourism	-	-	299,291	299,291
Capital outlay	157,711	-	-	157,711
Debt service	-	-	-	-
<b>Total expenditures</b>	<u>280,736</u>	<u>-</u>	<u>299,291</u>	<u>580,027</u>
Excess revenues over (under) expenditures before other sources (uses)	(58,813)	32,092	23,396	(3,325)
<b>Other financing sources (uses)</b>				
Transfers from (to) other funds	-	-	62,511	62,511
<b>Total other financing sources (uses)</b>	-	-	62,511	62,511
<b>Excess revenues and other sources over (under) expenditures</b>	(58,813)	32,092	85,907	59,186
Fund balance, beginning of year	<u>117,542</u>	<u>(14,064)</u>	<u>141,057</u>	<u>244,535</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 58,729</u>	<u>\$ 18,028</u>	<u>\$ 226,964</u>	<u>\$ 303,721</u>

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**GAS DEPARTMENT**  
**for the year ended June 30, 2022**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 9,000,000	\$ 8,855,243	\$ (144,757)
Transportation/surcharges	1,035,000	699,478	(335,522)
Other operating revenues	331,000	341,914	10,914
<b>TOTAL OPERATING REVENUES</b>	<b>10,366,000</b>	<b>9,896,635</b>	<b>(469,365)</b>
<b>OPERATING EXPENSES</b>			
Gas purchases, net of refunds	3,504,500	4,151,433	646,933
Maintenance	932,000	591,898	(340,102)
Personnel services	1,802,700	1,777,293	(25,407)
Supplies	84,300	81,955	(2,345)
Utilities	60,000	60,165	165
Insurance	60,000	50,458	(9,542)
Engineering	68,800	53,605	(15,195)
Severance tax	10,000	6,095	(3,905)
Contract compression	300,000	73,978	(226,022)
Management fees	360,000	360,000	-
Other	291,150	127,884	(163,266)
Depreciation and amortization	600,000	725,579	125,579
<b>TOTAL OPERATING EXPENSES</b>	<b>8,073,450</b>	<b>8,060,343</b>	<b>(13,107)</b>
<b>OPERATING INCOME</b>	<b>2,292,550</b>	<b>1,836,292</b>	<b>(456,258)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income (loss)	5,000	(9,835)	(14,835)
Interest expense	(70,750)	(47,989)	22,761
Bond issuance cost	-	(9,207)	(9,207)
Gain (loss) on disposal of capital assets	-	38,541	38,541
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(65,750)</b>	<b>(28,490)</b>	<b>37,260</b>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>2,226,800</b>	<b>1,807,802</b>	<b>(418,998)</b>
Capital contributed - Grants	-	-	-
Transfers out	(3,500,000)	(3,200,000)	300,000
<b>TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>(3,500,000)</b>	<b>(3,200,000)</b>	<b>300,000</b>
<b>INCREASE (DECREASE) IN NET POSITION (Note 1)</b>	<b>\$ (1,273,200)</b>	<b>\$ (1,392,198)</b>	<b>\$ (118,998)</b>

Note 1: The City's budget includes a cash balance forward from the prior year which totals \$1,273,200. The cash balance forward amount is not included in this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$1,273,200.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WATER DEPARTMENT**  
**for the year ended June 30, 2022**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 8,240,000	\$ 7,506,313	\$ (733,687)
Transportation/surcharges	120,000	177,109	57,109
Other operating revenues	100,000	11,084	(88,916)
<b>TOTAL OPERATING REVENUES</b>	<b>8,460,000</b>	<b>7,694,506</b>	<b>(765,494)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	935,500	434,506	(500,994)
Personnel services	1,841,000	1,888,667	47,667
Supplies	890,000	519,894	(370,106)
Utilities	885,000	858,592	(26,408)
Insurance	110,000	90,551	(19,449)
Engineering	47,500	27,979	(19,521)
Management fees	360,000	360,000	-
Other	129,500	81,303	(48,197)
Depreciation and amortization	1,609,100	1,618,781	9,681
<b>TOTAL OPERATING EXPENSES</b>	<b>6,807,600</b>	<b>5,880,273</b>	<b>(927,327)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,652,400</b>	<b>1,814,233</b>	<b>161,833</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	15,000	(3,730)	(18,730)
Interest expense	(432,261)	(358,480)	73,781
Bond issuance cost	-	-	-
Gain (loss) on asset disposal	-	47,125	47,125
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(417,261)</b>	<b>(315,085)</b>	<b>102,176</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>1,235,139</b>	<b>1,499,148</b>	<b>264,009</b>
Capital contributed - Grants	-	-	-
Transfers out	(2,100,000)	(1,800,000)	300,000
<b>TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>(2,100,000)</b>	<b>(1,800,000)</b>	<b>300,000</b>
<b>INCREASE (DECREASE) IN NET POSITION (Note 1)</b>	<b>\$ (864,861)</b>	<b>\$ (300,852)</b>	<b>\$ 564,009</b>

Note 1: The City's budget includes a cash balance forward from the prior year which totals \$1,446,038. The cash balance forward amount is not included in this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$864,861.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**WASTEWATER DEPARTMENT**  
**for the year ended June 30, 2022**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 3,325,000	\$ 2,927,772	\$ (397,228)
Transportation/surcharges	25,000	6,144	(18,856)
Other operating revenues	1,993,000	779,202	(1,213,798)
<b>TOTAL OPERATING REVENUES</b>	<b>5,343,000</b>	<b>3,713,118</b>	<b>(1,629,882)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	586,000	613,891	27,891
Personnel services	1,358,000	1,245,817	(112,183)
Supplies	21,000	19,990	(1,010)
Utilities	410,000	452,259	42,259
Insurance	50,000	50,832	832
Engineering	30,000	16,777	(13,223)
Treatment	88,000	149,036	61,036
Other	109,200	131,191	21,991
Depreciation and amortization	1,100,000	1,142,838	42,838
<b>TOTAL OPERATING EXPENSES</b>	<b>3,752,200</b>	<b>3,822,631</b>	<b>70,431</b>
<b>OPERATING INCOME (LOSS)</b>	<b>1,590,800</b>	<b>(109,513)</b>	<b>(1,700,313)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	30,000	14,052	(15,948)
Interest expense	(186,132)	(181,637)	4,495
Bond issuance cost	-	(13,811)	(13,811)
Gain (loss) on asset disposal	-	(73,105)	(73,105)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(156,132)</b>	<b>(254,501)</b>	<b>(98,369)</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>1,434,668</b>	<b>(364,014)</b>	<b>(1,798,682)</b>
Capital contributed - Grants	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<b>TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET POSITION (Note 1)</b>	<b>\$ 1,434,668</b>	<b>\$ (364,014)</b>	<b>\$ (1,798,682)</b>

Note 1: The City includes principal debt payments and capital projects in its budget. Principal debt payments and capital expenditures 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, 2022**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ 4,365,000	\$ 3,794,179	\$ (570,821)
Other operating revenues	50,000	31,737	(18,263)
<b>TOTAL OPERATING REVENUES</b>	<b>4,415,000</b>	<b>3,825,916</b>	<b>(589,084)</b>
<b>OPERATING EXPENSES</b>			
Maintenance	365,000	327,941	(37,059)
Personnel services (Note 1)	1,420,100	1,872,091	451,991
Supplies	258,000	240,717	(17,283)
Utilities	29,000	29,494	494
Insurance	68,000	64,022	(3,978)
Landfill	1,100,000	1,099,567	(433)
Management fees	360,000	360,000	-
Other	172,300	64,818	(107,482)
Depreciation	275,000	267,624	(7,376)
<b>TOTAL OPERATING EXPENSES</b>	<b>4,047,400</b>	<b>4,326,274</b>	<b>278,874</b>
<b>OPERATING INCOME (LOSS)</b>	<b>367,600</b>	<b>(500,358)</b>	<b>(867,958)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	10,000	2,487	(7,513)
Interest expense	(93,350)	(27,652)	65,698
Gain (loss) on asset disposal	-	178,813	178,813
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(83,350)</b>	<b>153,648</b>	<b>236,998</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>284,250</b>	<b>(346,710)</b>	<b>(630,960)</b>
<b>OPERATING TRANSFERS</b>			
Transfers in	-	-	-
Transfers out	(968,000)	(780,511)	187,489
<b>TOTAL OPERATING TRANSFERS</b>	<b>(968,000)</b>	<b>(780,511)</b>	<b>187,489</b>
<b>(DECREASE) INCREASE IN NET POSITION (Note 2)</b>	<b>\$ (683,750)</b>	<b>\$ (1,127,221)</b>	<b>\$ (443,471)</b>

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

Note 2: The City budgeted an amount for cash balance forward. Cash balance forward is not presented on this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$683,750.

**CITY OF SOMERSET, KENTUCKY**  
**STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL**  
**VIRGINIA THEATER**  
for the year ended June 30, 2022

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>OPERATING REVENUES</b>			
Sales to customers	\$ -	\$ -	\$ -
Other operating revenues	-	-	-
<b>TOTAL OPERATING REVENUES</b>	-	-	-
<b>OPERATING EXPENSES</b>			
Salaries	5,000	3,008	(1,992)
Other operating expenses	162,300	118,095	(44,205)
<b>TOTAL OPERATING EXPENSES</b>	167,300	121,103	(46,197)
<b>OPERATING INCOME (LOSS)</b>	(167,300)	(121,103)	46,197
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	200	187	(13)
Interest expense	(68,400)	(74,342)	(5,942)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	(68,200)	(74,155)	(5,955)
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	(235,500)	(195,258)	40,242
<b>OPERATING TRANSFERS</b>			
Transfers in	300,000	394,217	94,217
Transfers out	(64,500)	(64,474)	26
<b>TOTAL OPERATING TRANSFERS</b>	235,500	329,743	94,243
<b>(DECREASE) INCREASE IN NET POSITION</b>	\$ -	\$ 134,485	\$ 134,485





**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, 2022, 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 December 7, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Somerset, Kentucky's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Somerset, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Somerset, Kentucky's internal control.

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 financial statements. 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  
December 7, 2022



**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**

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

We have audited the City of Somerset, Kentucky's compliance with the types of compliance requirements identified as subject to audit 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, 2022. The City of Somerset, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Somerset, Kentucky and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Somerset, Kentucky's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of Somerset, Kentucky's federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Somerset, Kentucky's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Somerset, Kentucky's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Somerset, Kentucky's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Somerset, Kentucky's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 City of Somerset, Kentucky's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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  
December 7, 2022

**CITY OF SOMERSET, KENTUCKY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**for the year ended June 30, 2022**

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	Note 3	7/1/2021- 6/30/2022	\$ -	\$ 285,942
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Note 3	7/1/2021- 6/30/2022	-	3,052,466
<b>Total U.S. Department of the Treasury</b>				<u>-</u>	<u>3,338,408</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	20C-001	7/1/2021- 6/30/2022	-	400,000
<b>Total U.S. Department of Housing and Urban Development</b>				<u>-</u>	<u>400,000</u>
U.S. Department of Transportation					
Passed through the Kentucky Transportation Cabinet					
Highway Planning and Construction	20.205	Note 3	7/1/2021-6/30/2022	-	27,821
National Priority Safety Program	20.616	Note 3	7/1/2021-6/30/2022	-	21,292
<b>Total U.S. Department of Transportation</b>				<u>-</u>	<u>49,113</u>
U.S. Environmental Protection Agency					
Passed through the Kentucky Infrastructure Authority					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	21199002	7/1/2021-6/30/2022	-	741,864
<b>Total U.S. Environmental Protection Agency</b>				<u>-</u>	<u>741,864</u>
U.S. Department of Homeland Security					
SAFER Grant	97.083	N/A	7/1/2021-6/30/2022	-	124,244
<b>Total U.S. Department of Homeland Security</b>				<u>-</u>	<u>124,244</u>
U.S. Department of Health and Human Services					
COVID-19 - Provider Relief Fund	93.498	N/A	7/1/2021-6/30/2022	-	99,399
<b>Total U.S. Department of Homeland Security</b>				<u>-</u>	<u>99,399</u>
<b>Total federal awards expended</b>				<u>\$ -</u>	<u>\$ 4,753,028</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.

Note 3 - Passthrough entity numbers are presented when available. Pass through grantor's number not available.

**CITY OF SOMERSET, KENTUCKY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended June 30, 2022**

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**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified \_\_Yes XNo

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

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

Federal Awards:

Internal control over major programs:

Material weaknesses identified \_\_Yes XNo

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

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

Unmodified for all major programs.

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

\_\_Yes XNo

**Major Program:**

<b>AL Numbers</b>	<b>Name of Federal Program or Cluster</b>
21.027	COVID-19 – Coronavirus State and Local Fiscal Recovery Funds

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

Auditee qualified as a low-risk auditee? XYes \_\_No

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS**

NONE

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

NONE

**IV. PRIOR AUDIT FINDINGS**

NONE