

CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2023

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	60-62
Supplementary Information	
Combining Balance Sheet – All Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – All Nonmajor Governmental Funds	64
Statement of Revenues and Expenses – Budget to Actual	
Gas Department	65
Water Department	66
Wastewater Department.....	67
Sanitation Department.....	68
Virginia Theater	69
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>	70-71
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	72-73
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, 2023, 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, 2023, 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 accompanying 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 November 17, 2023, 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
November 17, 2023

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, 2023. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources were \$158.30 million
- Bank balances totaled \$10.92 million
- Total long-term debt increased by \$3.59 million
- General fund reported a fund balance of \$2.03 million
- During the year, the City's business-type activities generated net revenues of \$1.57 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$47.94 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$13.27 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 \$6.47 million from the prior year. This decrease is primarily due to GASB accounting rules for reporting unfunded liability for future pension and OPEB costs and rising costs related to inflation and employee cost. 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 Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Activities</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current & Other Assets	\$ (1.55)	\$ (.39)	\$ 21.32	\$ 25.19	\$ 19.77	\$ 24.80
Capital and Leased Assets	34.02	35.08	88.48	84.55	122.50	119.63
Deferred Outflows	<u>13.63</u>	<u>11.38</u>	<u>2.39</u>	<u>2.83</u>	<u>16.02</u>	<u>14.21</u>
Total Assets and Deferred Outflows	<u>46.10</u>	<u>46.07</u>	<u>112.19</u>	<u>112.57</u>	<u>158.29</u>	<u>158.64</u>
Current Liabilities	3.81	3.78	6.06	4.80	9.87	8.58
Long Term Liabilities	64.47	61.69	44.70	40.32	109.17	102.01
Deferred Inflows	<u>6.73</u>	<u>7.63</u>	<u>1.31</u>	<u>2.74</u>	<u>8.04</u>	<u>10.37</u>
Total Liabilities/Deferred Inflows	<u>75.01</u>	<u>73.10</u>	<u>52.07</u>	<u>47.86</u>	<u>127.08</u>	<u>120.96</u>
Net investment in capital assets	16.87	17.64	53.05	53.20	69.92	70.84
Restricted	1.48	1.18	2.30	2.36	3.78	3.54
Unrestricted	<u>(47.26)</u>	<u>(45.85)</u>	<u>4.77</u>	<u>9.15</u>	<u>(42.49)</u>	<u>(36.70)</u>
Total Net Position	<u>\$ (28.91)</u>	<u>\$ (27.03)</u>	<u>\$ 60.12</u>	<u>\$ 64.71</u>	<u>\$ 31.21</u>	<u>\$ 37.68</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by \$5.79 million during fiscal year 2023. The major contributing factor for this decrease is due to the increases in GASB Pension and OPEB expenses as well as increase in cost for supplies, insurance, and employee related costs.

Total assets and deferred outflows for Governmental Activities increased from \$46.07 million at June 30, 2022 to \$46.10 million at June 30, 2023. The major contributing factor for this increase is due to deferred outflow.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Revenues						
Program Revenues						
Charges for Services	\$ 7.94	\$ 7.51	\$ 26.83	\$ 25.13	\$ 34.77	\$ 32.64
Federal & State Grants	3.62	6.28	-	-	3.62	6.28
General Revenues						
Property Taxes	1.96	1.91	-	-	1.96	1.91
Other Taxes and License Fees	9.43	9.04	-	-	9.43	9.04
Other General Revenues	<u>1.66</u>	<u>1.50</u>	<u>.10</u>	<u>-</u>	<u>1.76</u>	<u>1.50</u>
Total Revenues	<u>\$ 24.61</u>	<u>\$ 26.24</u>	<u>\$ 26.93</u>	<u>\$ 25.13</u>	<u>\$ 51.54</u>	<u>\$ 51.37</u>
Program Expenses						
General Government	\$ 5.27	\$ 5.15	\$ -	\$ -	\$ 5.27	\$ 5.15
Public Safety	11.87	11.55	-	-	11.87	11.55
Public Services	.24	.30	-	-	.24	.30
Streets	1.94	2.08	-	-	1.94	2.08
Parks and Recreation	1.31	1.36	-	-	1.31	1.36
Emergency Medical Services	7.10	6.51	-	-	7.10	6.51
Cemetery	.13	.13	-	-	.13	.13
Fuel Center	1.16	1.38	-	-	1.16	1.38
Waterpark	2.75	2.29	-	-	2.75	2.29
Travel & Tourism	.36	.30	-	-	.36	.30
Intergovernmental Programs	.12	.12	-	-	.12	.12
Downtown Revitalization	.01	.01	-	-	.01	.01
Debt Service – Interest & bond costs	.41	.50	-	-	.41	.50
Interest on long-term leases	.04	.03	-	-	.04	.03
Gas	-	-	9.19	8.12	9.19	8.12
Water	-	-	7.66	6.24	7.66	6.24
Wastewater	-	-	3.68	4.02	3.68	4.02
Sanitation	-	-	4.12	4.35	4.12	4.35
Virginia Theater	-	-	.81	.19	.81	.19
Total Expense	<u>\$ 32.71</u>	<u>\$ 31.71</u>	<u>\$ 25.46</u>	<u>\$ 22.92</u>	<u>\$ 58.17</u>	<u>\$ 54.63</u>
Gain (Loss) on disposal of capital assets	\$.06	\$.16	\$.1	\$.19	\$.16	\$.35
Excess (Deficiency) before Transfer	(8.04)	(5.31)	1.57	2.40	(6.47)	(2.91)
Transfer	<u>6.16</u>	<u>5.45</u>	<u>(6.16)</u>	<u>(5.45)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(1.88)	.14	(4.59)	(3.05)	(6.47)	(2.91)
Net Position, beginning	<u>(27.03)</u>	<u>(27.17)</u>	<u>64.71</u>	<u>67.76</u>	<u>37.68</u>	<u>40.59</u>
Net Position, ending	<u>\$ (28.91)</u>	<u>\$ (27.03)</u>	<u>\$ 60.12</u>	<u>\$ 64.71</u>	<u>\$ 31.21</u>	<u>\$ 37.68</u>

Management's Discussion and Analysis, Continued

The City's total revenues increased by \$0.17 million. The total cost of all programs and services increased by \$ 3.54 million. The major change in revenue comes from an increase in charges for services. Expenses are up in all the emergency services as well as additional costs related to current inflation. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The cost of all governmental activities this year was \$32.71 million compared to \$31.71 million last year. Overall, the City's governmental program fees for services increased from \$7.51 million in 2022 to \$7.94 million in 2023. The City paid for the remaining "public benefit" portion of governmental activities with \$11.39 million in taxes and license fees, \$3.62 million in grants and entitlements, \$1.66 million of other revenues, and \$6.16 million in transfers.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, streets, waterpark, and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost increased by \$3.25 million and shows the financial burden that was placed on the City's taxpayers by each of these functions. The major contributing factors for this increase is due to increases in employee related expenses and less grant money.

Table 3
Governmental Activities
(in Millions)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Emergency Medical Services	\$ 7.10	\$ 6.51	\$ 1.75	\$ 1.39
Police and Fire Department	11.87	11.50	11.06	7.53
Streets	1.94	2.08	1.67	1.75
Waterpark	2.75	2.29	1.06	.26
Parks and recreation	1.31	1.36	.12	1.20
All Others	<u>7.74</u>	<u>7.97</u>	<u>5.50</u>	<u>5.78</u>
Totals	<u>\$ 32.71</u>	<u>\$ 31.71</u>	<u>\$ 21.16</u>	<u>\$ 17.91</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$1.80 million (\$25.13 million in 2022 compared to \$26.93 million in 2023) and expenses increased by \$2.54 million (\$22.92 million in 2022 compared to \$25.46 million in 2023). The factors driving these results include:

The major increase in revenue for this fiscal year is due to a increase in charges for service. 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 \$2.03 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 \$.75 million less than the \$16.01 million budgeted, while actual expenditures were \$4.80 million less than the expected \$26.61 million budgeted. (Required supplementary budgetary comparison General Fund audit draft)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the City had \$122.47 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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	\$ 3.96	\$ 3.96	\$ 1.08	\$ 1.08	\$ 5.04	\$ 5.04
Right of Way and Easements	.01	.01	.15	.15	.16	.16
Construction in Progress	1.26	.58	7.91	5.37	9.17	5.95
Infrastructure	11.39	12.11	-	-	11.39	12.11
Utility Plant and Distribution System	-	-	40.77	41.89	40.77	41.89
Buildings and Improvements	13.68	14.24	34.63	32.75	48.31	46.99
Vehicles	2.70	2.72	1.63	.86	4.33	3.58
Equipment	.15	.31	.95	.79	1.10	1.10
Office Equipment	.05	.04	.44	.45	0.49	0.49
Land Improvements	.20	.24	.06	.06	0.26	0.30
Leased vehicles	.47	.68	.35	.50	.82	1.18
Leased equipment	.14	.19	.49	.65	.63	.84
Total	<u>\$ 34.01</u>	<u>\$ 35.08</u>	<u>\$ 88.46</u>	<u>\$ 84.55</u>	<u>\$ 122.47</u>	<u>\$ 119.63</u>

This year's major additions were:

Construction project still not finished as of June 30, 2023: Fischer Fun Park #2, Sewer Sludge Dewatering, 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 6 to the financial statements.

Management's Discussion and Analysis, Continued

Debt

As of June 30, 2023, the City's Governmental Activities long term debt had decreased by \$.76 million and the Business-Type Activities long term debt increased by \$4.35 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$3.72 million and \$.87 million respectively. We are now required to include our OPEB Liability, which increased in the Governmental Activities by \$.15 million and increased in the Business-Type activities by \$.01 million. We are now required to include our Lease Liability, which decreased in the Governmental Activities by \$.26 million and decreased in the Business-Type activities by \$.30 million. Table 5 below contains the details.

Table 5
Outstanding Debt at Year End
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Long-Term Debt	\$ 16.52	\$ 17.28	\$ 34.56	\$ 30.21	\$ 51.08	\$ 47.49
Net Pension Liability	38.39	34.67	9.55	8.68	47.94	43.35
Net OPEB Liability	10.66	10.51	2.61	2.60	13.27	13.11
Lease Liability	<u>.63</u>	<u>.89</u>	<u>.87</u>	<u>1.17</u>	<u>1.50</u>	<u>2.06</u>
Totals	<u>\$ 66.20</u>	<u>\$ 63.35</u>	<u>\$ 47.59</u>	<u>\$ 42.66</u>	<u>\$ 113.79</u>	<u>\$ 106.01</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, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,877,167	\$ 1,687,387	\$ 3,564,554
Certificates of deposit	-	3,404,432	3,404,432
Investments	-	449,810	449,810
Receivables, net	3,235,176	3,115,048	6,350,224
Accrued interest receivable	-	4,074	4,074
Inventories	186,468	2,255,828	2,442,296
Prepaid expenses	9,154	13,961	23,115
Internal balances, net	<u>(8,088,600)</u>	<u>8,088,600</u>	<u>-</u>
Total current assets	<u>(2,780,635)</u>	<u>19,019,140</u>	<u>16,238,505</u>
Noncurrent assets			
Restricted cash and cash equivalents	1,233,569	2,294,055	3,527,624
Excess cost over market value of assets acquired, net	-	24,127	24,127
Capital assets			
Nondepreciable capital assets	5,230,454	9,141,391	14,371,845
Depreciable capital assets, net	28,181,330	78,480,536	106,661,866
Leased vehicles and equipment, net	<u>608,167</u>	<u>845,809</u>	<u>1,453,976</u>
Total noncurrent assets	<u>35,253,520</u>	<u>90,785,918</u>	<u>126,039,438</u>
Total assets	<u>32,472,885</u>	<u>109,805,058</u>	<u>142,277,943</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	9,769,169	1,320,044	11,089,213
Deferred outflows - OPEB	<u>3,861,614</u>	<u>1,072,538</u>	<u>4,934,152</u>
Total deferred outflows of resources	<u>13,630,783</u>	<u>2,392,582</u>	<u>16,023,365</u>
Total assets and deferred outflows of resources	<u>\$ 46,103,668</u>	<u>\$ 112,197,640</u>	<u>\$ 158,301,308</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 491,342	\$ 1,927,061	\$ 2,418,403
Deferred revenue	-	3,275	3,275
Accrued interest payable	100,501	159,416	259,917
Other current liabilities	1,482,093	500,606	1,982,699
Retainage payable	-	583,141	583,141
Current portion of lease liability	254,733	278,320	533,053
Current portion of long-term debt	<u>1,480,746</u>	<u>2,613,188</u>	<u>4,093,934</u>
Total current liabilities	<u>3,809,415</u>	<u>6,065,007</u>	<u>9,874,422</u>
Noncurrent liabilities			
Lease liability	378,517	596,070	974,587
Notes payable	771,565	10,807,087	11,578,652
Bonds payable	14,267,524	21,141,873	35,409,397
Net pension liability	38,386,600	9,549,767	47,936,367
Net OPEB liability	<u>10,662,801</u>	<u>2,606,461</u>	<u>13,269,262</u>
Total noncurrent liabilities	<u>64,467,007</u>	<u>44,701,258</u>	<u>109,168,265</u>
Total liabilities	<u>68,276,422</u>	<u>50,766,265</u>	<u>119,042,687</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	3,608,349	238,836	3,847,185
Deferred inflows - OPEB	<u>3,126,971</u>	<u>1,072,470</u>	<u>4,199,441</u>
Total deferred inflows of resources	<u>6,735,320</u>	<u>1,311,306</u>	<u>8,046,626</u>
NET POSITION			
Net investment in capital assets	16,866,866	53,055,325	69,922,191
Restricted for			
Debt service	-	2,294,055	2,294,055
Other purposes	1,486,427	-	1,486,427
Unrestricted	<u>(47,261,367)</u>	<u>4,770,689</u>	<u>(42,490,678)</u>
Total net position	<u>(28,908,074)</u>	<u>60,120,069</u>	<u>31,211,995</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 46,103,668</u>	<u>\$ 112,197,640</u>	<u>\$ 158,301,308</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, 2023

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
Primary government							
Governmental activities							
General government	\$ 5,273,603	\$ 988,876	\$ 211,167	\$ -	\$ (4,073,560)	\$ -	\$ (4,073,560)
Public safety	11,870,822	-	814,695	-	(11,056,127)	-	(11,056,127)
Public services	240,620	-	-	-	(240,620)	-	(240,620)
Streets	1,940,872	-	68,056	205,191	(1,667,625)	-	(1,667,625)
Parks and recreation	1,313,518	188,690	-	1,000,000	(124,828)	-	(124,828)
Emergency medical services	7,096,896	4,024,512	1,319,000	-	(1,753,384)	-	(1,753,384)
Cemetery	132,754	30,185	-	-	(102,569)	-	(102,569)
Waterpark	2,749,133	1,693,691	-	-	(1,055,442)	-	(1,055,442)
Fuel center	1,159,120	1,010,192	-	-	(148,928)	-	(148,928)
Travel and tourism	361,967	-	-	-	(361,967)	-	(361,967)
Intergovernmental programs	116,955	-	-	-	(116,955)	-	(116,955)
Downtown revitalization	9,546	-	-	-	(9,546)	-	(9,546)
Interest on long-term debt	402,492	-	-	-	(402,492)	-	(402,492)
Interest on long-term leases	42,898	-	-	-	(42,898)	-	(42,898)
Total governmental activities	32,711,196	7,936,146	2,412,918	1,205,191	(21,156,941)	-	(21,156,941)
Business-type activities							
Gas department	9,188,985	10,033,567	-	-	-	844,582	844,582
Water department	7,662,472	8,439,891	-	-	-	777,419	777,419
Wastewater department	3,675,704	4,106,369	-	-	-	430,665	430,665
Sanitation department	4,122,071	4,088,939	-	-	-	(33,132)	(33,132)
Virginia Theater	814,062	163,438	-	-	-	(650,624)	(650,624)
Total business-type activities	25,463,294	26,832,204	-	-	-	1,368,910	1,368,910
Total primary government	\$ 58,174,490	\$ 34,768,350	\$ 2,412,918	\$ 1,205,191	(21,156,941)	1,368,910	(19,788,031)
General revenues							
Taxes:							
Property taxes					1,720,019	-	1,720,019
Transient room tax					242,861	-	242,861
License fees:							
Franchise					1,106,971	-	1,106,971
Insurance premiums					2,358,917	-	2,358,917
Occupational					5,001,599	-	5,001,599
ABC					963,079	-	963,079
Investment earnings					25,091	103,005	128,096
Miscellaneous					1,635,826	-	1,635,826
Total general revenues					13,054,363	103,005	13,157,368
Gain (loss) on disposal of capital assets					60,577	98,202	158,779
Transfers in (out)					6,158,127	(6,158,127)	-
Change in Net Position					(1,883,874)	(4,588,010)	(6,471,884)
Net position-beginning					(27,024,200)	64,708,079	37,683,879
NET POSITION-ENDING					\$ (28,908,074)	\$ 60,120,069	\$ 31,211,995

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

CITY OF SOMERSET, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2023

	General	EMS	Waterpark	Fuel Center	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,107,139	\$ 431,526	\$ 221,102	\$ 50,688	\$ 300,281	\$ 3,110,736
Receivables, net	2,714,501	427,606	9,109	17,464	66,496	3,235,176
Inventories	32,314	-	58,064	96,090	-	186,468
Prepaid expenses	8,815	-	339	-	-	9,154
Due from other funds	6,366,013	-	-	20,634	-	6,386,647
Total assets	\$ 11,228,782	\$ 859,132	\$ 288,614	\$ 184,876	\$ 366,777	\$ 12,928,181
LIABILITIES						
Accounts payable	\$ 288,783	\$ 45,701	\$ 85,567	\$ 70,143	\$ 1,148	\$ 491,342
Due to other funds	7,318,019	2,899,080	3,930,486	273,764	53,898	14,475,247
Other current liabilities	1,035,300	340,604	87,206	5,206	13,777	1,482,093
Total liabilities	8,642,102	3,285,385	4,103,259	349,113	68,823	16,448,682
DEFERRED INFLOWS						
Deferred inflows - unavailable revenue	558,363	-	-	-	-	558,363
FUND BALANCE						
Nonspendable	41,129	-	58,403	96,090	-	195,622
Restricted	1,233,569	-	-	-	315,328	1,548,897
Unassigned	753,619	(2,426,253)	(3,873,048)	(260,327)	(17,374)	(5,823,383)
Total fund balance	2,028,317	(2,426,253)	(3,814,645)	(164,237)	297,954	(4,078,864)
Total liabilities, deferred inflows and fund balance	\$ 11,228,782	\$ 859,132	\$ 288,614	\$ 184,876	\$ 366,777	\$ 12,928,181

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

Fund balance reported above	\$ (4,078,864)
Capital and leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.	34,019,951
Deferred inflows - unavailable revenue related to the opioid settlement is recognized as revenue in the year of settlement in the governmental activities in accordance with the accrual basis of accounting.	558,363
Interest accrued on general long-term debt is not a current expenditure and is not reported in the funds.	(100,501)
Net deferred inflows/outflows related to the long-term net pension and net OPEB liabilities are not reported in the funds.	6,895,463
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.	(66,202,486)
Net position of governmental activities	\$ (28,908,074)

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, 2023

	<u>General</u>	<u>EMS</u>	<u>Waterpark</u>	<u>Fuel Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 1,720,019	\$ -	\$ -	\$ -	\$ 242,861	\$ 1,962,880
Licenses and permits	9,430,566	-	-	-	-	9,430,566
Fines and forfeits	14,379	-	-	-	-	14,379
Charges for services	649,388	4,024,512	1,693,691	1,010,192	-	7,377,783
Intergovernmental	2,025,862	1,319,000	-	-	273,247	3,618,109
Interest income	23,365	623	524	210	369	25,091
Other revenues	1,398,759	54,372	103,080	-	65,236	1,621,447
Total revenues	<u>15,262,338</u>	<u>5,398,507</u>	<u>1,797,295</u>	<u>1,010,402</u>	<u>581,713</u>	<u>24,050,255</u>
EXPENDITURES						
Current:						
General administration	4,812,225	-	-	-	-	4,812,225
Public safety	10,872,100	-	-	-	-	10,872,100
Public services	240,620	-	-	-	-	240,620
Streets	1,142,922	-	-	-	100,085	1,243,007
Parks and recreation	1,115,829	-	-	-	-	1,115,829
Emergency medical services	-	6,669,390	-	-	-	6,669,390
Cemetery	129,925	-	-	-	-	129,925
Waterpark	-	-	2,014,348	-	-	2,014,348
Fuel center	-	-	-	1,128,409	-	1,128,409
Travel and tourism	-	-	-	-	357,204	357,204
Downtown revitalization	9,546	-	-	-	-	9,546
Intergovernmental programs	116,182	-	-	-	-	116,182
Capital outlay	1,596,752	114,310	-	17,849	205,191	1,934,102
Debt service	1,774,810	153,839	226,855	-	-	2,155,504
Total expenditures	<u>21,810,911</u>	<u>6,937,539</u>	<u>2,241,203</u>	<u>1,146,258</u>	<u>662,480</u>	<u>32,798,391</u>
Excess (deficiency) of revenues over expenditures	<u>(6,548,573)</u>	<u>(1,539,032)</u>	<u>(443,908)</u>	<u>(135,856)</u>	<u>(80,767)</u>	<u>(8,748,136)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from issuance of debt	596,370	92,085	-	-	-	688,455
Proceeds from sale of capital assets	224,808	384	-	-	-	225,192
Transfers in (out)	5,708,627	(50,000)	424,500	-	75,000	6,158,127
Total other financing sources and uses	<u>6,529,805</u>	<u>42,469</u>	<u>424,500</u>	<u>-</u>	<u>75,000</u>	<u>7,071,774</u>
Net change in fund balances	(18,768)	(1,496,563)	(19,408)	(135,856)	(5,767)	(1,676,362)
Fund balance-beginning	<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>
Fund balance-ending	\$ 2,028,317	\$ (2,426,253)	\$ (3,814,645)	\$ (164,237)	\$ 297,954	\$ (4,078,864)

Reconciliation to government-wide change in net position:

Net change in fund balances	\$ (1,676,362)
add: capital outlay expenditures capitalized	1,934,102
add: debt service expenditures	2,155,504
add: gain from sale of capital assets	60,577
add: opioid settlement revenue	558,363
less: proceeds from sale of assets	(225,192)
less: proceeds from issuance of debt	(688,455)
less: depreciation and amortization on governmental activities assets	(2,833,026)
less: change in net pension liability	86,083
less: change in net OPEB liability	(810,078)
less: interest on long term debt and long term leases	(445,390)

Change in net position governmental activities

\$ (1,883,874)

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2023

	Business-type Activities					Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Virginia Theater	
ASSETS						
Current assets						
Cash and cash equivalents	\$ 287,553	\$ 961,165	\$ 414,253	\$ 14,107	\$ 10,309	\$ 1,687,387
Certificates of deposit	-	-	2,803,627	600,805	-	3,404,432
Investments	224,905	224,905	-	-	-	449,810
Receivables, net	701,121	1,246,971	603,410	560,271	3,275	3,115,048
Accrued interest receivable	-	-	3,181	893	-	4,074
Inventories	320,306	1,887,497	39,907	-	8,118	2,255,828
Prepaid expenses	-	-	-	-	13,961	13,961
Due from other funds	1,548,815	6,925,256	144,506	47,238	-	8,665,815
Total current assets	<u>3,082,700</u>	<u>11,245,794</u>	<u>4,008,884</u>	<u>1,223,314</u>	<u>35,663</u>	<u>19,596,355</u>
Noncurrent assets						
Restricted cash and cash equivalents	-	2,105,055	189,000	-	-	2,294,055
Excess cost over market value of assets acquired, net	-	24,127	-	-	-	24,127
Capital assets						
Nondepreciable capital assets	251,391	8,087,415	621,355	75,000	106,230	9,141,391
Leased vehicles and equipment	1,043,304	106,369	158,620	89,182	-	1,397,475
Depreciable capital assets	28,347,960	71,682,135	47,172,910	4,806,448	3,005,963	155,015,416
Less accumulated depreciation and amortization	<u>(22,082,600)</u>	<u>(27,784,765)</u>	<u>(24,570,852)</u>	<u>(2,535,605)</u>	<u>(112,724)</u>	<u>(77,086,546)</u>
Total noncurrent assets	<u>7,560,055</u>	<u>54,220,336</u>	<u>23,571,033</u>	<u>2,435,025</u>	<u>2,999,469</u>	<u>90,785,918</u>
Total assets	<u>10,642,755</u>	<u>65,466,130</u>	<u>27,579,917</u>	<u>3,658,339</u>	<u>3,035,132</u>	<u>110,382,273</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pension	355,794	416,058	215,102	304,716	28,374	1,320,044
Deferred outflows - OPEB	289,083	338,048	174,771	247,582	23,054	1,072,538
Total deferred outflows of resources	<u>644,877</u>	<u>754,106</u>	<u>389,873</u>	<u>552,298</u>	<u>51,428</u>	<u>2,392,582</u>
Total assets and deferred outflows of resources	<u>\$ 11,287,632</u>	<u>\$ 66,220,236</u>	<u>\$ 27,969,790</u>	<u>\$ 4,210,637</u>	<u>\$ 3,086,560</u>	<u>\$ 112,774,855</u>
LIABILITIES						
Current liabilities						
Accounts payable	\$ 509,143	\$ 1,101,113	\$ 147,336	\$ 158,359	\$ 11,110	\$ 1,927,061
Due to other funds	4,612	2,838	3,815	78,792	487,158	577,215
Accrued interest payable	2,701	138,019	11,243	1,730	5,723	159,416
Unearned revenue	-	-	-	-	3,275	3,275
Other current liabilities	158,893	162,281	83,027	88,331	8,074	500,606
Retainage payable	-	583,141	-	-	-	583,141
Current portion of lease liability	211,437	19,830	28,218	18,835	-	278,320
Current portion of long-term debt	95,243	568,472	647,487	1,194,162	107,824	2,613,188
Total current liabilities	<u>982,029</u>	<u>2,575,694</u>	<u>921,126</u>	<u>1,540,209</u>	<u>623,164</u>	<u>6,642,222</u>
Noncurrent liabilities						
Notes payable	102,542	6,392,880	4,268,133	43,532	-	10,807,087
Lease liability	444,258	43,372	61,167	47,273	-	596,070
Bonds payable	488,427	15,861,537	2,101,906	-	2,690,003	21,141,873
Net pension liability	2,573,965	3,009,947	1,556,141	2,204,444	205,270	9,549,767
Net OPEB liability	702,524	821,518	424,725	601,669	56,025	2,606,461
Total noncurrent liabilities	<u>4,311,716</u>	<u>26,129,254</u>	<u>8,412,072</u>	<u>2,896,918</u>	<u>2,951,298</u>	<u>44,701,258</u>
Total liabilities	<u>5,293,745</u>	<u>28,704,948</u>	<u>9,333,198</u>	<u>4,437,127</u>	<u>3,574,462</u>	<u>51,343,480</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pension	64,373	75,280	38,920	55,130	5,133	238,836
Deferred inflows - OPEB	289,066	338,028	174,760	247,563	23,053	1,072,470
Total deferred inflows of resources	<u>353,439</u>	<u>413,308</u>	<u>213,680</u>	<u>302,693</u>	<u>28,186</u>	<u>1,311,306</u>
NET POSITION						
Net investment in capital assets	6,218,148	29,229,190	16,275,122	1,131,223	201,642	53,055,325
Restricted for debt service	-	2,105,055	189,000	-	-	2,294,055
Unrestricted	<u>(577,700)</u>	<u>5,767,735</u>	<u>1,958,790</u>	<u>(1,660,406)</u>	<u>(717,730)</u>	<u>4,770,689</u>
Total net position	<u>5,640,448</u>	<u>37,101,980</u>	<u>18,422,912</u>	<u>(529,183)</u>	<u>(516,088)</u>	<u>60,120,069</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,287,632</u>	<u>\$ 66,220,236</u>	<u>\$ 27,969,790</u>	<u>\$ 4,210,637</u>	<u>\$ 3,086,560</u>	<u>\$ 112,774,855</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, 2023

	Business-type Activities					Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Virginia Theater	
Operating revenues						
Sales to customers	\$ 8,890,833	\$ 7,821,856	\$ 3,255,387	\$ 4,003,816	\$ 162,193	\$ 24,134,085
Transportation/surcharges	798,602	226,980	16,720	-	-	1,042,302
Other operating revenues	<u>344,132</u>	<u>391,055</u>	<u>834,262</u>	<u>85,123</u>	<u>1,245</u>	<u>1,655,817</u>
Total operating revenues	<u>10,033,567</u>	<u>8,439,891</u>	<u>4,106,369</u>	<u>4,088,939</u>	<u>163,438</u>	<u>26,832,204</u>
Operating expenses						
Gas purchases, net of refunds	5,288,277	-	-	-	-	5,288,277
Operating expenses	2,590,020	4,523,396	1,816,075	3,470,933	634,433	13,034,857
Maintenance	560,868	1,125,384	564,897	311,574	-	2,562,723
Depreciation and amortization	<u>708,933</u>	<u>1,639,320</u>	<u>1,135,611</u>	<u>304,916</u>	<u>112,724</u>	<u>3,901,504</u>
Total operating expenses	<u>9,148,098</u>	<u>7,288,100</u>	<u>3,516,583</u>	<u>4,087,423</u>	<u>747,157</u>	<u>24,787,361</u>
Operating income (loss)	<u>885,469</u>	<u>1,151,791</u>	<u>589,786</u>	<u>1,516</u>	<u>(583,719)</u>	<u>2,044,843</u>
Nonoperating revenues (expenses)						
Gain (loss) on disposal of capital assets	1,396	-	-	96,806	-	98,202
Interest and investment income (loss)	(3,904)	13,437	83,790	9,631	51	103,005
Interest expense	<u>(40,887)</u>	<u>(374,372)</u>	<u>(159,121)</u>	<u>(34,648)</u>	<u>(66,905)</u>	<u>(675,933)</u>
Total nonoperating revenues (expenses)	<u>(43,395)</u>	<u>(360,935)</u>	<u>(75,331)</u>	<u>71,789</u>	<u>(66,854)</u>	<u>(474,726)</u>
Income (loss) before capital contributions and transfers	842,074	790,856	514,455	73,305	(650,573)	1,570,117
Transfers in (out)	<u>(2,900,000)</u>	<u>(2,791,028)</u>	<u>32,401</u>	<u>(499,500)</u>	<u>-</u>	<u>(6,158,127)</u>
Change in net position	(2,057,926)	(2,000,172)	546,856	(426,195)	(650,573)	(4,588,010)
Total net position-beginning	<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 NET POSITION-ENDING	<u>\$ 5,640,448</u>	<u>\$ 37,101,980</u>	<u>\$ 18,422,912</u>	<u>\$ (529,183)</u>	<u>\$ (516,088)</u>	<u>\$ 60,120,069</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2023

	Business-type Activities					Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Virginia Theater	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 9,618,559	\$ 8,028,407	\$ 3,299,801	\$ 4,457,418	\$ 162,194	\$ 25,566,379
Cash payments to suppliers for goods and services	(7,039,107)	(3,913,728)	(1,536,005)	(2,318,486)	(300,139)	(15,107,465)
Cash payments to employees	(1,827,863)	(2,114,879)	(1,168,137)	(1,593,544)	(116,360)	(6,820,783)
Other operating revenues	<u>344,132</u>	<u>391,055</u>	<u>834,262</u>	<u>85,123</u>	<u>1,245</u>	<u>1,655,817</u>
Net cash provided (used) by operating activities	<u>1,095,721</u>	<u>2,390,855</u>	<u>1,429,921</u>	<u>630,511</u>	<u>(253,060)</u>	<u>5,293,948</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Receipts (payments) on interfund loans	1,488,637	(451,310)	(333,640)	337,663	484,784	1,526,134
Transfers (to) from other funds	<u>(2,900,000)</u>	<u>(1,438,627)</u>	<u>(1,320,000)</u>	<u>(499,500)</u>	<u>-</u>	<u>(6,158,127)</u>
Net cash provided (used) by non-capital financing activities	<u>(1,411,363)</u>	<u>(1,889,937)</u>	<u>(1,653,640)</u>	<u>(161,837)</u>	<u>484,784</u>	<u>(4,631,993)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Principal paid on bonds, notes and leases	(318,836)	(568,007)	(696,462)	(670,744)	(103,824)	(2,357,873)
Interest paid on bonds, notes and leases	(41,022)	(372,556)	(163,056)	(33,860)	(67,206)	(677,700)
Proceeds from issuance of debt	107,340	5,158,010	-	1,146,313	-	6,411,663
Acquisition and construction of capital assets	(107,340)	(5,503,321)	(327,726)	(1,146,292)	(182,601)	(7,267,280)
Proceeds from sale of assets	<u>1,396</u>	<u>-</u>	<u>-</u>	<u>230,624</u>	<u>-</u>	<u>232,020</u>
Net cash provided (used) by capital and related financing activities	<u>(358,462)</u>	<u>(1,285,874)</u>	<u>(1,187,244)</u>	<u>(473,959)</u>	<u>(353,631)</u>	<u>(3,659,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from certificates of deposit	-	1,259,830	-	-	-	1,259,830
Purchase of investments	-	-	(99)	(98)	-	(197)
Interest income	<u>(1,016)</u>	<u>16,366</u>	<u>81,072</u>	<u>8,745</u>	<u>51</u>	<u>105,218</u>
Net cash provided (used) by investing activities	<u>(1,016)</u>	<u>1,276,196</u>	<u>80,973</u>	<u>8,647</u>	<u>51</u>	<u>1,364,851</u>
Net increase (decrease) in cash and cash equivalents	(675,120)	491,240	(1,329,990)	3,362	(121,856)	(1,632,364)
Balances-beginning of the year	<u>962,673</u>	<u>2,574,980</u>	<u>1,933,243</u>	<u>10,745</u>	<u>132,165</u>	<u>5,613,806</u>
BALANCES-END OF THE YEAR	<u>\$ 287,553</u>	<u>\$ 3,066,220</u>	<u>\$ 603,253</u>	<u>\$ 14,107</u>	<u>\$ 10,309</u>	<u>\$ 3,981,442</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss):	\$ 885,469	\$ 1,151,791	\$ 589,786	\$ 1,516	\$ (583,719)	\$ 2,044,843
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization expense	708,933	1,639,320	1,135,611	304,916	112,724	3,901,504
Net pension liability activity	(136,928)	108,623	(222,296)	(166,066)	182,029	(234,638)
Net OPEB liability activity	32,862	112,809	(18,746)	14,639	56,024	197,588
Change in assets and liabilities:						
Receivables, net	(70,876)	(20,429)	27,694	453,602	4,421	394,412
Inventory	(68,568)	(969,538)	7,438	-	(5,868)	(1,036,536)
Prepaid expenses	-	-	-	-	(9,711)	(9,711)
Accounts and retainage payable	171,745	339,290	(85,750)	26,239	(11,200)	440,324
Other liabilities	(426,916)	28,989	(3,816)	(4,335)	6,660	(399,418)
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,420)</u>	<u>(4,420)</u>
Net cash provided by operating activities	<u>\$ 1,095,721</u>	<u>\$ 2,390,855</u>	<u>\$ 1,429,921</u>	<u>\$ 630,511</u>	<u>\$ (253,060)</u>	<u>\$ 5,293,948</u>
Supplemental disclosure of cash flow information:						
Noncash capital and related financing activities:						
Payables for capital items, net	<u>\$ -</u>	<u>\$ 669,763</u>	<u>\$ 7,314</u>	<u>\$ -</u>	<u>\$ 3,770</u>	<u>\$ 680,847</u>

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

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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, 2023

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. Revenues that are not considered available are reported as deferred inflows of resources. 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, 2023

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 balance 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, 2023

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	\$ 32,314	\$ -	\$ 58,064	\$ 96,090	\$ -	\$ 186,468
Prepays	8,815	-	339	-	-	9,154
Restricted						
Other	1,233,569	-	-	-	-	1,233,569
Coal & mineral	-	-	-	-	62,471	62,471
Tourism	-	-	-	-	252,857	252,857
Unassigned	<u>753,944</u>	<u>(2,426,253)</u>	<u>(3,873,048)</u>	<u>(260,327)</u>	<u>(17,374)</u>	<u>(5,823,058)</u>
Total	<u>\$ 2,028,642</u>	<u>\$(2,426,253)</u>	<u>\$(3,814,645)</u>	<u>\$(164,237)</u>	<u>\$ 297,954</u>	<u>\$(4,078,539)</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, 2023

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 and Virginia theater 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 are recorded as expenditures when purchased rather than when consumed.

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, 2023

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:

Description	Years
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, 2023

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

Effective July 1, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-based Information Technology Arrangements. GASB Statement No. 96 requires recognition of a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability for subscription-based information technology arrangements (SBITA) that were previously classified as operating expenses. It establishes uniform guidance for SBITA accounting based on the foundational principle that SBITA are financings of the right to use vendor-provided information technology assets. Government entities are required to recognize a subscription liability and an intangible right-to-use subscription asset. These changes had no effect on the financial statements.

K. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 17, 2023, 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, 2023, have not been evaluated by the City.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

2. CASH

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, 2023 are as follows:

Carrying amount	\$ 10,496,610
Bank balance	\$ 11,226,403
FDIC Insurance	\$ 2,549,173
Bank Deposit Guaranty Bond	\$ 651,249
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	\$ 8,025,981
Uninsured and uncollateralized	\$ -

3. INVESTMENTS

As of June 30, 2023, the City had a total of \$449,810 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.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. As of June 30, 2023, the City had the following investments:

	June 30, 2023	Weighted Average Maturity (in days)
Investments Measured at NAV		
KLCIP	<u>\$ 449,810</u>	N/A

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts Receivable

Account receivables at June 30, 2023 for all funds of the City are as follows:

	Accounts	Taxes	Licenses & Permits	Intergov.	Other	Allowance	Total
General Fund	\$ 31,710	\$ 28,841	\$ 1,825,542	\$ 26,764	\$ 833,309	\$ (31,665)	\$ 2,714,501
EMS Fund	1,029,823	-	-	-	1,111	(603,328)	427,606
Waterpark	9,109	-	-	-	-	-	9,109
Fuel Center	-	-	-	-	17,464	-	17,464
Other Gov.	-	26,606	-	39,890	-	-	66,496
Gas	566,807	-	-	-	134,314	-	701,121
Water	1,223,839	-	-	-	23,132	-	1,246,971
Wastewater	494,434	-	-	-	108,976	-	603,410
Sanitation	560,271	-	-	-	-	-	560,271
Virginia Theater	<u>3,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,275</u>
Totals	<u>\$ 3,919,268</u>	<u>\$ 55,447</u>	<u>\$ 1,825,542</u>	<u>\$ 66,654</u>	<u>\$ 1,118,306</u>	<u>\$ (634,993)</u>	<u>\$ 6,350,224</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

5. 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, 2023 are as follows:

Receivable Fund	Payable Fund	Amount
Fuel Center Fund	Gas Department	\$ 4,582
Fuel Center Fund	Water Department	2,838
Fuel Center Fund	Wastewater Department	3,287
Fuel Center Fund	Virginia Theater	397
Gas Department	General Fund	(1,548,815)
Water Department	General Fund	(5,624,698)
Water Department	Waterpark	(1,300,000)
Wastewater Department	General Fund	(144,506)
Sanitation Department	Fuel Center	(46,278)
Sanitation Department	Tourism & Travel	(77)
General Fund	Sanitation Department	78,792
General Fund	Virginia Theater	<u>485,878</u>
Internal balances, net		<u>\$ (8,088,600)</u>

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2023 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	EMS Fund	\$ 2,889,890
General Fund	Waterpark	\$ 2,630,146
General Fund	Fuel Center	\$ 227,486
General Fund	Municipal Aid Projects	\$ 50,000
General Fund	Tourism & Travel	\$ 3,821
Fuel Center Fund	Waterpark	\$ 340
Fuel Center Fund	Travel and Tourism	\$ -
Fuel Center Fund	EMS Fund	\$ 9,190
Water Department	Gas Department	\$ 30
Water Department	Wastewater Department	\$ 528
Sanitation Department	Virginia Theater	\$ 883

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, 2023

6. CAPITAL ASSETS

A summary of changes in the City's capital assets during the year ended June 30, 2023, is as follows:

	June 30, 2022	Additions/ Transfers	Disposals/ Transfers	June 30, 2023
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 3,960,782	\$ -	\$ -	\$ 3,960,782
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>583,889</u>	<u>674,715</u>	-	<u>1,258,604</u>
Totals	<u>4,555,739</u>	<u>674,715</u>	-	<u>5,230,454</u>
Capital assets that are depreciated:				
Infrastructure	38,483,817	440,476	-	38,924,293
Building and improvements	20,177,744	-	-	20,177,744
Vehicles	7,628,685	678,553	(784,771)	7,522,467
Equipment	2,832,240	86,868	(9,600)	2,909,508
Office equipment	1,071,830	29,459	(11,980)	1,089,309
Land improvements	1,434,124	-	-	1,434,124
Leased vehicles	850,525	-	(27,834)	822,691
Leased equipment	<u>257,318</u>	<u>24,031</u>	<u>(5,428)</u>	<u>275,921</u>
Totals	<u>72,736,283</u>	<u>1,259,387</u>	<u>(839,613)</u>	<u>73,156,057</u>
Total capital assets	<u>77,292,022</u>	<u>1,934,102</u>	<u>(839,613)</u>	<u>78,386,511</u>
Accumulated depreciation:				
Infrastructure	26,374,187	1,159,263	-	27,533,450
Buildings and improvements	5,934,570	563,983	-	6,498,553
Vehicles	4,906,179	537,611	(621,332)	4,822,458
Equipment	2,526,373	239,091	(8,720)	2,756,744
Office equipment	1,032,627	15,222	(11,780)	1,036,069
Land improvements	<u>1,193,040</u>	<u>35,801</u>	-	<u>1,228,841</u>
Totals	<u>41,966,976</u>	<u>2,550,971</u>	<u>(641,832)</u>	<u>43,876,115</u>
Accumulated amortization:				
Leased vehicles	169,292	208,924	(27,760)	350,456
Leased equipment	<u>72,264</u>	<u>73,131</u>	<u>(5,406)</u>	<u>139,989</u>
Totals	<u>241,556</u>	<u>282,055</u>	<u>(33,166)</u>	<u>490,445</u>
Total accumulated depreciation and amortization	<u>42,208,532</u>	<u>2,833,026</u>	<u>(674,998)</u>	<u>44,366,560</u>
Capital Assets, Net	<u>\$ 35,083,490</u>	<u>\$ (898,924)</u>	<u>\$ (164,615)</u>	<u>\$ 34,019,951</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

6. CAPITAL ASSETS (CONTINUED)

	June 30, 2022	Additions/ Transfers	Disposals/ Transfers	June 30, 2023
Business-type Activities				
Capital assets not depreciated:				
Land	\$ 1,079,933	\$ -	\$ -	\$ 1,079,933
Right of way and easements	147,022	-	-	147,022
Construction in progress	<u>5,371,879</u>	<u>6,393,127</u>	<u>(3,850,570)</u>	<u>7,914,436</u>
Totals	<u>6,598,834</u>	<u>6,393,127</u>	<u>(3,850,570)</u>	<u>9,141,391</u>
Capital assets that are depreciated:				
Utility plant and dist. system	91,904,495	844,607	-	92,749,102
Building and improvements	50,046,571	3,005,963	-	53,052,534
Vehicles	3,256,524	1,200,039	(158,981)	4,297,582
Equipment	3,581,499	354,961	(46,146)	3,890,314
Office equipment	915,159	-	(3,502)	911,657
Land improvements	114,227	-	-	114,227
Leased vehicles	621,799	-	(25,269)	596,530
Leased equipment	<u>800,945</u>	<u>-</u>	<u>-</u>	<u>800,945</u>
Totals	<u>151,241,219</u>	<u>5,405,570</u>	<u>(233,898)</u>	<u>156,412,891</u>
Total capital assets	<u>157,840,053</u>	<u>11,798,697</u>	<u>(4,084,468)</u>	<u>165,554,282</u>
Accumulated depreciation:				
Utility plant and dist. system	50,027,145	1,949,686	-	51,976,831
Buildings and improvements	17,296,515	1,125,841	-	18,422,356
Vehicles	2,392,524	302,152	(25,163)	2,669,513
Equipment	2,786,971	198,917	(46,149)	2,939,739
Office equipment	466,721	10,443	(3,502)	473,662
Land improvements	<u>51,949</u>	<u>830</u>	<u>-</u>	<u>52,779</u>
Totals	<u>73,021,825</u>	<u>3,587,869</u>	<u>(74,814)</u>	<u>76,534,880</u>
Accumulated amortization:				
Leased vehicles	125,482	144,424	(25,269)	244,637
Leased equipment	<u>146,840</u>	<u>160,189</u>	<u>-</u>	<u>307,029</u>
Totals	<u>272,322</u>	<u>304,613</u>	<u>(25,269)</u>	<u>551,666</u>
Total accumulated depreciation and amortization	<u>73,294,147</u>	<u>3,892,482</u>	<u>(100,083)</u>	<u>77,086,546</u>
Capital Assets, Net	<u>\$ 84,545,906</u>	<u>\$ 7,906,215</u>	<u>\$ (3,984,385)</u>	<u>\$ 88,467,736</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

6. CAPITAL ASSETS (CONTINUED)

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

Primary Government

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Waterpark	\$ 726,423	Water	\$ 1,603,891
Streets	554,149	Wastewater	1,093,656
Public Safety	443,158	Gas	490,518
General Government	376,068	Sanitation	287,080
Emergency Medical Services	164,858	Virginia	<u>112,724</u>
Parks and Recreation	173,841		
Fuel Center	30,132		<u>\$ 3,587,869</u>
Cemetery	2,217		
Municipal Aid Projects	76,367		
Travel & Tourism	<u>3,758</u>		
	<u>\$ 2,550,971</u>		

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

Primary Government

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Waterpark	\$ 5,562	Water	\$ 26,407
Streets	62,575	Wastewater	41,955
Public Safety	131,670	Gas	218,415
General Government	58,870	Sanitation	<u>17,836</u>
Emergency Medical Services	5,562		
Parks and Recreation	<u>17,816</u>		<u>\$ 304,613</u>
	<u>\$ 282,055</u>		

7. LONG-TERM LIABILITIES

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2023:

Description	Balance June 30, 2022	Issued/ Transfers	Retired	June 30, 2023	Due within One year
Primary Government					
<u>Governmental Activities</u>					
<u>General Fund</u>					
Direct Borrowing - Street sweeper loan with interest at 3.50% maturing in FY 2023	\$ 6,528	\$ -	\$ 6,528	\$ -	\$ -
Series 2021 with interest at 2.00% to 5.00% maturing in fiscal year 2041	1,979,000	-	184,000	1,795,000	193,000
Series 2021 Bond Premium	285,077	-	15,004	270,073	15,004
Series 2020 with interest at 2.00% to 3.00% maturing in fiscal year 2045	8,100,000	-	270,000	7,830,000	275,000
Series 2020 Bond Premium	260,392	-	14,466	245,926	14,466

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

7. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance June 30, 2022	Issued/ Transfers	Retired	June 30, 2023	Due within One year
Primary Government, continued					
<u>Governmental Activities, continued</u>					
<u>General Fund, continued</u>					
Direct Borrowing - Police car loan with interest at 1.99% maturing in fiscal year 2026	\$ 154,114	\$ -	\$ 39,982	\$ 114,132	\$ 40,780
Direct Borrowing - Cinder pumper loan with interest at 2.31% maturing in fiscal year 2031	501,306	-	53,940	447,366	55,190
Series 2021 GO Refunding with interest at 2.80% maturing in fiscal year 2032	3,748,742	-	329,243	3,419,499	338,279
Monticello Commercial Loan with interest at 1.97% maturing in fiscal year 2023	145,444	-	145,444	-	-
Citizens National Bank Loan with interest at 2.91% maturing in fiscal year 2028	-	39,000	5,492	33,508	7,509
Cumberland Security Commercial Loan with interest at 2.60% maturing in fiscal year 2028	-	315,000	49,668	265,332	61,038
Citizens National Bank Loan with interest at 2.91% maturing in fiscal year 2028	-	45,750	6,443	39,307	8,809
Cumberland Valley National Bank Loan with interest at 3.99% maturing in fiscal year 2024	-	172,589	-	172,589	172,589
<i>EMS</i>					
Direct Borrowing – Ambulance loan with interest at 4.15% maturing in fiscal year 2023	26,278	-	26,278	-	-
Direct Borrowing – Ambulance loan with interest at 2.31% maturing in fiscal year 2026	110,529	-	32,255	78,274	33,029
Direct Borrowing – Equipment loan with interest at 2.31% maturing in fiscal year 2026	132,120	-	66,060	66,060	66,060
Stryker EMS Loan with interest at 0.00% maturing in fiscal year 2026	-	92,085	17,905	74,180	30,696
<i>Waterpark</i>					
Series 2021 GO with interest at 2.0 to 5.0% maturing in fiscal year 2041	544,000	-	51,000	493,000	53,000
Series 2021 GO Refunding with interest at 2.80% maturing in fiscal year 2032	1,288,780	-	113,191	1,175,589	116,297
Net pension liability	<u>34,673,512</u>	<u>3,713,088</u>	<u>-</u>	<u>38,386,600</u>	<u>-</u>
Net OPEB liability	<u>10,506,240</u>	<u>156,561</u>	<u>-</u>	<u>10,662,801</u>	<u>-</u>
Lease liability	<u>888,463</u>	<u>24,031</u>	<u>279,244</u>	<u>633,250</u>	<u>254,733</u>
Total governmental activities	<u>\$ 63,350,525</u>	<u>\$ 4,558,104</u>	<u>\$ 1,706,143</u>	<u>\$ 66,202,486</u>	<u>\$ 1,735,479</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

7. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance June 30, 2022	Issued/ Transfers	Retired	June 30, 2023	Due within One year
Primary Government, continued					
<u>Business-type Activities</u>					
<u>Gas Department</u>					
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0% maturing in FY 2034	\$ 20,975	\$ -	\$ 1,652	\$ 19,323	\$ 1,686
Direct Borrowing - Note payable local bank with interest at 2.48%, maturing in FY 2026	19,383	-	5,502	13,881	5,641
Direct Borrowing – Cumberland Security loan with interest at 2.85%, maturing in FY 2024	34,626	-	25,844	8,782	8,782
Direct Borrowing – Cumberland Security loan with interest at 2.79%, maturing in FY 2024	16,515	-	11,589	4,926	4,926
Series 2021 GO Refunding with interest at 2.80% maturing in FY 2032	594,241	-	52,191	542,050	53,623
Cumberland Security Bank Loan with interest at 2.70% maturing in fiscal year 2028	-	107,340	10,090	97,250	20,585
Total Gas Department	\$ 685,740	\$ 107,340	\$ 106,868	\$ 686,212	\$ 95,243
<u>Water Department</u>					
Series 2012 with interest at 2.125% maturing in FY 2052	\$ 11,991,000	\$ -	\$ 278,500	\$ 11,712,500	\$ 285,500
Direct Borrowing - KIA loan with interest at .5% maturing in FY 2055	1,198,563	4,993,763	-	6,192,326	-
Direct Borrowing – Citizens National Bank loan with interest at 2.75%, maturing in FY 2024	11,373	-	7,124	4,249	4,249
Direct Borrowing – Cumberland Security Bank loan with interest at 3.79% maturing in FY 2024	13,226	-	7,834	5,392	5,392
Series 2021 GO with interest at 2.00 to 5.00% maturing in FY 2041	3,140,000	1,267,000	162,000	4,245,000	162,000
Series 2021 GO Bond Premium	302,748	85,401	15,934	372,215	20,679
Direct Borrowing – Citizens National Bank loan with interest at 2.35%, maturing in FY 2026	159,502	-	47,772	111,730	48,917
Direct Borrowing - Monticello Bank loan with interest at 2.50% to 5.00% maturing in FY 2026	38,390	-	10,663	27,727	10,904
Citizens National Bank Loan with interest at 3.75% maturing in fiscal year 2028	-	53,747	5,763	47,984	10,168
Citizens National Bank Loan with interest at 3.86% maturing in fiscal year 2028	-	110,500	6,734	103,766	20,663
Total Water Department	\$ 16,854,802	\$ 6,510,411	\$ 542,324	\$ 22,822,889	\$ 568,472

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

7. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance June 30, 2022	Issued/ Transfers	Retired	June 30, 2023	Due within One year
Primary Government, continued					
<u>Business-type Activities, continued</u>					
<u>Wastewater Department</u>					
Direct Borrowing – KIA Loan with interest at 1%, maturing in fiscal year 2032	\$ 4,876,743	\$ -	\$ 402,210	\$ 4,474,533	\$ 406,241
Direct Borrowing - Note payable to City of Ferguson with interest at 2.0%, maturing in FY 2034	237,656	-	18,719	218,937	19,095
Series 2021 GO with interest at 2.0% to 5.0%, maturing in FY 2041	2,658,000	(1,267,000)	133,000	1,258,000	119,000
Series 2021 Bond Premium	246,571	(85,401)	12,976	148,194	12,350
Series 2021 GO Bond Refunding with interest at 2.80%, maturing in fiscal year 2032	<u>1,006,237</u>	<u>-</u>	<u>88,375</u>	<u>917,862</u>	<u>90,801</u>
Total Wastewater Department	<u>\$ 9,025,207</u>	<u>\$(1,352,401)</u>	<u>\$ 655,280</u>	<u>\$ 7,017,526</u>	<u>\$ 647,487</u>
<u>Sanitation Department</u>					
Direct Borrowing – Cumberland Valley National Bank loan with interest at 3.5%, maturing in fiscal year 2023	\$ 24,428	\$ -	\$ 24,428	\$ -	\$ -
Direct Borrowing - Note payable to local bank with interest at 3.85%, maturing in FY 2024	47,377	-	31,276	16,101	16,101
Direct Borrowing – Citizens National Bank loan with interest at 2.36%, maturing in FY 2026	106,281	-	31,001	75,280	31,748
Direct Borrowing – Magnolia Bank loan with interest at 3.75%, maturing in FY 2023	407,997	-	407,997	-	-
Direct Borrowing Monticello Bank loan with interest at 2.49%, maturing in fiscal year 2023	159,022	-	159,022	-	-
Forcht Bank Loan with interest at 3.00% maturing in fiscal year 2024	-	482,480	-	482,480	482,480
Cumberland Security Bank Loan with interest at 3.84% maturing in fiscal year 2024	-	184,374	-	184,374	184,374
Cumberland Security Bank Loan with interest at 2.63% maturing in fiscal year 2024	<u>-</u>	<u>479,459</u>	<u>-</u>	<u>479,459</u>	<u>479,459</u>
Total Sanitation Department	<u>\$ 745,105</u>	<u>\$ 1,146,313</u>	<u>\$ 653,724</u>	<u>\$ 1,237,694</u>	<u>\$ 1,194,162</u>
<u>Virginia Theater Fund</u>					
Series 2021 GO with interest at 2.0% to 5.0% maturing in fiscal year 2031	\$ 2,734,000	\$ -	\$ 95,000	\$ 2,639,000	\$ 99,000
Premium on Series 2021 GO	<u>167,650</u>	<u>-</u>	<u>8,823</u>	<u>158,827</u>	<u>8,824</u>
Total Virginia Theatre Fund	<u>\$ 2,901,650</u>	<u>\$ -</u>	<u>\$ 103,823</u>	<u>\$ 2,797,827</u>	<u>\$ 107,824</u>
Net pension liability	<u>\$ 8,676,022</u>	<u>\$ 873,745</u>	<u>\$ -</u>	<u>\$ 9,549,767</u>	<u>\$ -</u>
Net OPEB liability	<u>\$ 2,604,527</u>	<u>\$ 1,934</u>	<u>\$ -</u>	<u>\$ 2,606,461</u>	<u>\$ -</u>

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

7. LONG-TERM LIABILITIES (CONTINUED)

Description	Balance June 30, 2022	Issued/ Transfers	Retired	June 30, 2023	Due within One year
Primary Government, continued					
<u>Business-type Activities, continued</u>					
Lease Liability	\$ 1,170,243	\$ -	\$ 295,853	\$ 874,390	\$ 278,320
Total Business-type activities	<u>\$ 42,663,296</u>	<u>\$ 7,287,342</u>	<u>\$ 2,357,872</u>	<u>\$ 47,592,766</u>	<u>\$ 2,891,508</u>

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	\$ 3,419,498
Waterpark	1,175,589
Gas department	542,050
Wastewater department	<u>917,862</u>
Total	<u>\$ 6,054,999</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	\$ 1,795,000
Waterpark	493,000
Water department	4,245,000
Wastewater department	1,258,000
Virginia Theater	<u>2,639,000</u>
Total	<u>\$ 10,430,000</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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

7. LONG-TERM LIABILITIES (CONTINUED)

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
2024	\$ 1,480,746	\$ 404,202	\$ 1,884,948
2025	1,277,550	371,386	1,648,936
2026	1,266,358	324,901	1,591,259
2027	1,242,403	287,836	1,530,239
2028	1,054,515	250,805	1,305,320
2029-2033	4,718,966	819,057	5,538,023
2034-2038	1,936,351	462,328	2,398,679
2039-2043	2,257,946	232,425	2,490,371
2044-2048	<u>1,285,000</u>	<u>18,869</u>	<u>1,303,869</u>
	<u>\$ 16,519,835</u>	<u>\$ 3,171,809</u>	<u>\$ 19,691,644</u>

Business-type Activities

Year ended	Principal	Interest	Total
2024	\$ 2,613,188	\$ 617,469	\$ 3,230,657
2025	1,510,688	555,166	2,065,854
2026	1,450,456	519,661	1,970,117
2027	1,458,196	484,942	1,943,138
2028	1,468,235	449,313	1,917,548
2029-2033	7,603,960	1,677,539	9,281,499
2034-2038	4,725,091	1,041,123	5,766,214
2039-2043	3,027,508	649,877	3,677,385
2044-2048	2,393,500	380,099	2,773,599
2049-2052	<u>2,119,000</u>	<u>112,642</u>	<u>2,231,642</u>
	28,369,822	6,487,831	34,857,653
KIA Water Loan	<u>6,192,326</u>	<u>-</u>	<u>6,192,326</u>
Totals	<u>\$ 34,562,148</u>	<u>\$ 6,487,831</u>	<u>\$ 41,049,979</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, 2023 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2023, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

8. 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, 2023 totaled \$22,270.

As of June 30, 2023, 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 \$5,477 and bear interest at 2.6%. The balance of the liability related to the copier leases as of June 30, 2023 totaled \$120,665.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

8. LEASE LIABILITIES (CONTINUED)

Governmental Activities, continued

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 – 5.37%. The balance of the liability related to the vehicle leases as of June 30, 2023 totaled \$490,315.

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

Year ended	Principal	Interest	Total
2024	\$ 254,733	\$ 11,260	\$ 265,993
2025	180,290	13,974	194,264
2026	131,582	5,986	137,568
2027	62,909	3,997	66,906
2028	<u>3,736</u>	<u>60</u>	<u>3,796</u>
	<u>\$ 633,250</u>	<u>\$ 35,277</u>	<u>\$ 668,527</u>

Business-type Activities

On 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, 2023 totaled \$506,143.

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 2.90 – 7.04%. The balance of the liability related to the vehicle leases as of June 30, 2023 totaled \$368,247.

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

Year ended	Principal	Interest	Total
2024	\$ 278,320	\$ 16,358	\$ 294,678
2025	270,020	11,331	281,351
2026	274,334	7,018	281,352
2027	<u>51,716</u>	<u>2,569</u>	<u>54,285</u>
	<u>\$ 874,390</u>	<u>\$ 37,276</u>	<u>\$ 911,666</u>

9. 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

9. RETIREMENT PLAN (CONTINUED)

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, 2023, 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, 2023, participating employers contributed 26.79% of each employee's wages for non-hazardous job classifications and 49.59% of each employee's wages for hazardous job classifications.

The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 10. Plan members contributed 23.40% to the pension trust for non-hazardous job classifications and 42.81% 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, 2023, the City contributed \$1,665,083 or 100% of the required contribution for non-hazardous job classifications, and \$3,172,597, for the year ended June 30, 2023, 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

9. RETIREMENT PLAN (CONTINUED)

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. 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, 2023, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 47,936,367</u>	<u>\$ 17,383,682</u>	<u>\$ 30,552,685</u>

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021 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, 2022, was as follows:

Non-hazardous	Hazardous
.240%	1.001%

The proportionate share at June 30, 2022 relative to June 30, 2021 decreased for non-hazardous by .007% and decreased for hazardous by .039%.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

9. RETIREMENT PLAN (CONTINUED)

For the year ended June 30, 2023, the City recognized pension expense of \$4,673,451. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 894,585	\$ 2,857,254
Changes of assumptions	-	709,974
Net difference between projected and actual earnings on Plan investments	3,853,782	-
Changes in proportion and differences between City contributions and proportionate share of contributions	1,575,565	279,957
City contributions subsequent to the measurement date	<u>4,765,281</u>	<u>-</u>
Total	<u>\$ 11,089,213</u>	<u>\$ 3,847,185</u>

The \$4,765,281 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2024	\$ 1,162,976
2025	\$ 450,327
2026	\$ (320,357)
2027	\$ 1,183,801

Actuarial Assumptions – The total pension liability in the June 30, 2022, 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.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

9. RETIREMENT PLAN (CONTINUED)

The actuarial assumptions used in the June 30, 2022, 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, 2021) to the plan's fiscal year ending June 30, 2022. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Liquidity	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	4.28%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.58%

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:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 21,727,444	5.25%	\$ 38,058,370
Current discount rate	6.25%	\$ 17,383,682	6.25%	\$ 30,552,685
1% increase	7.25%	\$ 13,791,028	7.25%	\$ 24,439,769

Payable to the Pension Plan – At June 30, 2023, the City reported a payable of \$684,257 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2023. The payable includes both the pension and insurance contribution allocation.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 9, 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, 2023, the employer’s contribution was 3.39% to the insurance trust for non-hazardous job classifications and 6.78% 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, 2023, the City contributed \$241,223, or 100% of the required contribution for non-hazardous job classifications, and \$502,457, 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, 2023

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2023, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net Pension Liability	Non-hazardous	Hazardous
<u>\$ 13,269,262</u>	<u>\$ 4,744,939</u>	<u>\$ 8,524,323</u>

The net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021 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, 2022, was as follows:

Non-hazardous	Hazardous
.240%	1.001%

The proportionate share at June 30, 2022 relative to June 30, 2021 for non-hazardous decreased by .007% and hazardous decreased by .036%.

For the year ended June 30, 2023, the City recognized OPEB expense of \$1,782,364. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 665,968	\$ 1,592,984
Changes of assumptions	2,173,403	2,085,093
Net difference between projected and actual earnings on Plan investments	503,718	-
Changes in proportion and differences between City contributions and proportionate share of contributions	598,493	521,364
City contributions subsequent to the measurement date	<u>992,570</u>	<u>-</u>
Total	<u>\$ 4,934,152</u>	<u>\$ 4,199,441</u>

The \$992,570 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, 2024. This includes adjustments of \$171,074 for the nonhazardous implicit subsidy and \$92,994 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,		
2024	\$	108,371
2025	\$	79,645
2026	\$	(318,723)
2027	\$	179,935
2028	\$	(307,087)

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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

Actuarial Assumptions – The total OPEB liability in the June 30, 2022, 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 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 9.00% at January 1, 2024, 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 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post – 65:	Initial trend starting at 9.00% at January 1, 2024, 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, 2022 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, 2021) to the plan's fiscal year ending June 30, 2022.

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, 2023

10. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Liquidity	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Diversifying Strategies	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.00%	4.28%
Long term inflation assumption		2.30%
Expected nominal return for portfolio		6.58%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.70% and 5.61% 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	4.70%	\$ 6,343,226	4.61%	\$ 11,844,292
Current discount rate	5.70%	\$ 4,744,939	5.61%	\$ 8,524,323
1% increase	6.70%	\$ 3,423,687	6.61%	\$ 5,827,888

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

10. 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:

	Non-hazardous	Hazardous
	City's proportionate share of net OPEB liability	City's proportionate share of net OPEB liability
1% decrease	\$ 3,527,756	\$ 5,952,427
Current trend rate	\$ 4,744,939	\$ 8,524,323
1% increase	\$ 6,206,545	\$ 11,659,325

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

11. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2023 were levied in September 2022 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

11. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
EMS	General	Administration	\$ 50,000
Gas	General	General operations	\$ 2,900,000
Water	Wastewater	Debt transfer	\$ 32,401
Water	General	General operations	\$ 2,758,627
Sanitation	Travel & Tourism	General Operations	\$ 75,000
Sanitation	Water Park	General operations	\$ 424,500

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, 2023, is not readily available.

CITY OF SOMERSET, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023

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. SUBSEQUENT LOANS

On August 10, 2023, the City took out a loan totaling \$29,875 to finance the purchase of a vehicle for the water department. The loan is to be paid over 36 months and bears interest at 4.93%.

On August 29, 2023, the City took out a loan totaling \$64,003 to finance the purchase of a truck for the fire department. The loan is to be paid over 60 months and bears interest at 5.16%.

On August 29, 2023, the City took out a loan totaling \$420,595.82 to finance the purchase of two sanitation trucks for the sanitation department. The loan is the be paid over 18 months and bears interest at 4.93%

On September 12, 2023, the City took out a loan totaling \$29,875 to finance the purchase of a vehicle for the water department. The loan is to be paid over 36 months and bears interest at 5.16%.

On September 15, 2023, the City took out a loan totaling \$191,924 to finance the purchase of a truck for the street department. The loan is to be paid over 18 months and bears interest at 5.16%.

On September 29, 2023, the City took out a loan totaling \$260,021 to finance the purchase of five vehicles for the police department. The loan is to be paid over 60 months and bears interest at 5.99%.

On October 10, 2023, the City took out a loan totaling \$218,295 to finance the purchase of a sanitation truck for the sanitation department. The loan is the be paid over 18 months and bears interest at 5.60%

On November 13, 2023, the City took out a loan totaling \$652,922 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 5.79%.

On November 13, 2023, the City took out a loan totaling \$218,295 to finance the purchase of a sanitation truck for the sanitation department. The loan is to be paid over 18 months and bears interest at 5.79%.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
GENERAL FUND
for the year ended June 30, 2023

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Taxes	\$ 1,723,500	\$ 1,723,500	\$ 1,720,019	\$ (3,481)
Licenses and permits	8,777,500	8,777,500	9,430,566	653,066
Fines and forfeits	40,000	40,000	14,379	(25,621)
Charges for services	552,800	552,800	649,388	96,588
Intergovernmental	3,711,000	3,711,000	2,025,862	(1,685,138)
Interest income	22,500	22,500	23,365	865
Other revenues	1,185,000	1,185,000	1,398,759	213,759
TOTAL REVENUES	<u>16,012,300</u>	<u>16,012,300</u>	<u>15,262,338</u>	<u>(749,962)</u>
EXPENDITURES				
General administration	5,311,350	5,311,350	4,812,225	(499,125)
Public safety	11,955,850	11,955,850	10,872,100	(1,083,750)
Public services	397,500	397,500	240,620	(156,880)
Streets	1,409,240	1,409,240	1,142,922	(266,318)
Parks and recreation	2,256,600	2,256,600	1,115,829	(1,140,771)
Cemetery	145,130	145,130	129,925	(15,205)
Downtown revitalization	78,000	78,000	9,546	(68,454)
Intergovernmental programs	142,010	142,010	116,182	(25,828)
Capital outlay	3,180,000	3,180,000	1,596,752	(1,583,248)
Debt service - principal	1,385,362	1,385,362	1,385,362	-
Debt service - interest	352,788	352,788	389,448	36,660
TOTAL EXPENDITURES	<u>26,613,830</u>	<u>26,613,830</u>	<u>21,810,911</u>	<u>(4,802,919)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	-	-	596,370	596,370
Proceeds from sale of capital assets	-	-	224,808	224,808
Transfer from other funds	4,475,000	5,745,000	5,708,627	(36,373)
Transfer to other funds	(730,000)	(730,000)	-	730,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,745,000</u>	<u>5,015,000</u>	<u>6,529,805</u>	<u>1,514,805</u>
NET CHANGE IN FUND BALANCE	(6,856,530)	(5,586,530)	(18,768)	5,567,762
FUND BALANCE, BEGINNING OF YEAR	<u>6,856,530</u>	<u>5,586,530</u>	<u>2,047,085</u>	<u>(3,539,445)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,028,317</u>	<u>\$ 2,028,317</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
EMS FUND
for the year ended June 30, 2023

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 3,593,000	\$ 3,593,000	\$ 4,024,512	\$ 431,512
Intergovernmental revenues	2,024,000	2,024,000	1,319,000	(705,000)
Interest income	600	600	623	23
Other revenues	<u>25,600</u>	<u>25,600</u>	<u>54,372</u>	<u>28,772</u>
TOTAL REVENUES	<u>5,643,200</u>	<u>5,643,200</u>	<u>5,398,507</u>	<u>(244,693)</u>
EXPENDITURES				
Emergency medical services	7,161,100	7,161,100	6,669,390	(491,710)
Capital outlay	200,000	200,000	114,310	(85,690)
Debt service - principal	151,073	151,073	151,073	-
Debt service - interest	<u>47,027</u>	<u>47,027</u>	<u>2,766</u>	<u>(44,261)</u>
TOTAL EXPENDITURES	<u>7,559,200</u>	<u>7,559,200</u>	<u>6,937,539</u>	<u>(621,661)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	-	-	92,085	92,085
Proceeds from sale of capital assets	-	-	384	384
Transfer from other funds	1,941,000	1,941,000	-	(1,941,000)
Transfer to other funds	<u>(25,000)</u>	<u>(25,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,916,000</u>	<u>1,916,000</u>	<u>42,469</u>	<u>(1,873,531)</u>
NET CHANGE IN FUND BALANCE	-	-	(1,496,563)	(1,496,563)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(929,690)</u>	<u>(929,690)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,426,253)</u>	<u>\$ (2,426,253)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
WATERPARK FUND
for the year ended June 30, 2023

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,777,000	\$ 1,832,000	\$ 1,693,691	\$ (138,309)
Interest income	300	300	524	224
Other revenues	<u>30,000</u>	<u>90,000</u>	<u>103,080</u>	<u>13,080</u>
TOTAL REVENUES	<u>1,807,300</u>	<u>1,922,300</u>	<u>1,797,295</u>	<u>(125,005)</u>
EXPENDITURES				
Waterpark	1,915,700	2,125,700	2,014,348	(111,352)
Debt service - principal	-	169,708	169,708	-
Debt service - interest	<u>221,100</u>	<u>51,392</u>	<u>57,147</u>	<u>5,755</u>
TOTAL EXPENDITURES	<u>2,136,800</u>	<u>2,346,800</u>	<u>2,241,203</u>	<u>(105,597)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>329,500</u>	<u>424,500</u>	<u>424,500</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>329,500</u>	<u>424,500</u>	<u>424,500</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	(19,408)	(19,408)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(3,795,237)</u>	<u>(3,795,237)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,814,645)</u>	<u>\$ (3,814,645)</u>

CITY OF SOMERSET, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
FUEL CENTER FUND
for the year ended June 30, 2023

	<u>Enacted Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Charges for services	\$ 1,206,000	\$ 1,486,000	\$ 1,010,192	\$ (475,808)
Interest income	<u>100</u>	<u>100</u>	<u>210</u>	<u>110</u>
TOTAL REVENUES	<u>1,206,100</u>	<u>1,486,100</u>	<u>1,010,402</u>	<u>(475,698)</u>
EXPENDITURES				
Fuel center	1,206,100	1,206,100	1,128,409	(77,691)
Capital outlay	<u>-</u>	<u>-</u>	<u>17,849</u>	<u>17,849</u>
TOTAL EXPENDITURES	<u>1,206,100</u>	<u>1,206,100</u>	<u>1,146,258</u>	<u>(59,842)</u>
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	280,000	(135,856)	(415,856)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>(28,381)</u>	<u>(28,381)</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ (164,237)</u>	<u>\$ (444,237)</u>

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)
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%	0.240%
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	\$ 17,383,682
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
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%	253.13%
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%	52.42%

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)
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%	1.001%
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	\$ 30,552,685
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
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%	468.70%
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%	47.11%

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 805,078	\$ 804,991	\$ 727,713	\$ 863,880	\$ 904,347	\$ 1,020,927	\$ 1,193,976	\$ 1,255,663	\$ 1,564,408	\$ 1,665,083
Contributions relative to contractually required employer contribution	<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>1,564,408</u>	<u>1,665,083</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered employee payroll	\$ 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	\$ 7,115,737
Employer contributions as a percentage of covered-employee payroll	13.73%	12.75%	12.42%	14.05%	14.48%	16.22%	19.30%	19.30%	22.78%	23.40%

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 1,016,016	\$ 1,002,090	\$ 924,463	\$ 1,066,417	\$ 1,115,070	\$ 1,275,458	\$ 1,781,641	\$ 1,867,445	\$ 2,320,637	\$ 3,172,597
Contributions relative to contractually required employer contribution	<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>2,320,637</u>	<u>3,172,597</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	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948	\$ 6,212,394	\$ 6,518,645	\$ 7,410,878
Employer contributions as a percentage of covered-employee payroll	21.70%	20.78%	20.29%	21.71%	22.20%	24.87%	30.06%	30.06%	35.60%	42.81%

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

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)
City's proportion of the net OPEB liability	0.247%	0.253%	0.251%	0.243%	0.234%	0.247%	0.240%
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	\$ 4,744,939
City's covered employee payroll	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406	\$ 6,506,027	\$ 6,867,462
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%	69.09%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%	60.44%	51.67%	62.91%	60.95%

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 Seven Fiscal Years**

Reporting Fiscal Year (Measurement Date)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)	2021 (2020)	2022 (2021)	2023 (2022)
City's proportion of the net OPEB liability	0.882%	0.908%	0.904%	0.905%	1.013%	1.037%	1.001%
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	\$ 8,524,323
City's covered employee payroll	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948	\$ 6,212,394	\$ 6,518,645
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%	130.77%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	58.99%	64.24%	64.44%	58.84%	66.81%	64.13%

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**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 301,758	\$ 310,632	\$ 271,867	\$ 292,914	\$ 293,538	\$ 331,078	\$ 294,473	\$ 309,687	\$ 286,373	\$ 241,223
Contributions relative to contractually required employer contribution	<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>286,373</u>	<u>241,223</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	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251	\$ 6,186,406	\$ 6,506,027	\$ 6,867,462	\$ 7,115,737
Employer contributions as a percentage of covered-employee payroll	5.15%	4.92%	4.64%	4.76%	4.70%	5.26%	4.76%	4.76%	4.17%	3.39%

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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually required employer contribution	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954	\$ 564,245	\$ 591,420	\$ 569,078	\$ 502,457
Contributions relative to contractually required employer contribution	<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>569,078</u>	<u>502,457</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	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948	\$ 6,212,394	\$ 6,518,645	\$ 7,410,878
Employer contributions as a percentage of covered-employee payroll	13.89%	13.61%	12.71%	9.35%	9.35%	10.47%	9.52%	9.52%	8.73%	6.78%

CITY OF SOMERSET, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023

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, 2022 – 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, 2022, for OPEB:

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

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2022, for pension.

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.

CITY OF SOMERSET, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

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

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

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

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

June 30, 2017 – Pension – Hazardous and Nonhazardous

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

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

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

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

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.

CITY OF SOMERSET, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2023

2. CHANGES OF ASSUMPTIONS (CONTINUED)

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, 2023**

	Municipal Aid Projects Fund	Coal & Mineral Severance Fund	Travel & Tourism Fund	2023 Total
ASSETS				
Cash and cash equivalents	\$ 7,919	\$ 47,288	\$ 245,074	\$ 300,281
Receivables, net	24,707	15,183	26,606	66,496
Total assets	\$ 32,626	\$ 62,471	\$ 271,680	\$ 366,777
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 1,148	\$ 1,148
Due to other funds	50,000	-	3,898	53,898
Other current liabilities	-	-	13,777	13,777
Total liabilities	50,000	-	18,823	68,823
Fund balance	(17,374)	62,471	252,857	297,954
Total liabilities and fund balance	\$ 32,626	\$ 62,471	\$ 271,680	\$ 366,777

CITY OF SOMERSET, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2023

	Municipal Aid Projects Fund	Coal & Mineral Severance Fund	Travel & Tourism Fund	2023 Total
REVENUES				
Taxes	\$ -	\$ -	\$ 242,861	\$ 242,861
Intergovernmental revenues	228,915	44,332	-	273,247
Interest income	258	111	-	369
Other revenues	-	-	65,236	65,236
Total revenues	<u>229,173</u>	<u>44,443</u>	<u>308,097</u>	<u>581,713</u>
EXPENDITURES				
Current				
Streets	100,085	-	-	100,085
Travel and tourism	-	-	357,204	357,204
Capital outlay	<u>205,191</u>	<u>-</u>	<u>-</u>	<u>205,191</u>
Total expenditures	<u>305,276</u>	<u>-</u>	<u>357,204</u>	<u>662,480</u>
Excess revenues over (under) expenditures before other sources (uses)	(76,103)	44,443	(49,107)	(80,767)
Other financing sources (uses)				
Transfers from (to) other funds	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Excess revenues and other sources over (under) expenditures	(76,103)	44,443	25,893	(5,767)
Fund balance, beginning of year	<u>58,729</u>	<u>18,028</u>	<u>226,964</u>	<u>303,721</u>
FUND BALANCE - END OF YEAR	<u>\$ (17,374)</u>	<u>\$ 62,471</u>	<u>\$ 252,857</u>	<u>\$ 297,954</u>

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
GAS DEPARTMENT
for the year ended June 30, 2023

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 9,000,000	\$ 8,890,833	\$ (109,167)
Transportation/surcharges	867,500	798,602	(68,898)
Other operating revenues	345,000	344,132	(868)
TOTAL OPERATING REVENUES	10,212,500	10,033,567	(178,933)
OPERATING EXPENSES			
Gas purchases, net of refunds	4,202,000	5,288,277	1,086,277
Maintenance	757,600	560,868	(196,732)
Personnel services	1,807,000	1,723,797	(83,203)
Supplies	119,300	118,673	(627)
Utilities	63,000	61,845	(1,155)
Insurance	53,500	52,490	(1,010)
Engineering	100,000	44,100	(55,900)
Severance tax	10,000	30,462	20,462
Contract compression	250,000	37,200	(212,800)
Management fees	360,000	360,000	-
Other	287,000	161,453	(125,547)
Depreciation and amortization	550,000	708,933	158,933
TOTAL OPERATING EXPENSES	8,559,400	9,148,098	588,698
OPERATING INCOME	1,653,100	885,469	(767,631)
NONOPERATING REVENUES (EXPENSES)			
Investment income (loss)	5,000	(3,904)	(8,904)
Interest expense	(35,132)	(40,887)	(5,755)
Gain (loss) on disposal of capital assets	-	1,396	1,396
TOTAL NONOPERATING REVENUES (EXPENSES)	(30,132)	(43,395)	(13,263)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,622,968	842,074	(780,894)
OPERATING TRANSFERS			
Transfers out	(3,547,000)	(2,900,000)	647,000
TOTAL OPERATING TRANSFERS	(3,547,000)	(2,900,000)	647,000
INCREASE (DECREASE) IN NET POSITION (Note 1)	\$ (1,924,032)	\$ (2,057,926)	\$ (133,894)

Note 1: The City's budget includes a cash balance forward from the prior year which totals \$1,948,900. The cash balance forward amount is not included in this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$1,924,032.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WATER DEPARTMENT
for the year ended June 30, 2023

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 8,247,500	\$ 7,821,856	\$ (425,644)
Transportation/surcharges	125,000	226,980	101,980
Other operating revenues	922,000	391,055	(530,945)
TOTAL OPERATING REVENUES	9,294,500	8,439,891	(854,609)
OPERATING EXPENSES			
Maintenance	1,240,500	1,125,384	(115,116)
Personnel services (Note 1)	2,017,300	2,336,311	319,011
Supplies	794,500	611,605	(182,895)
Utilities	925,000	949,413	24,413
Insurance	94,000	96,957	2,957
Engineering	43,000	69,842	26,842
Management fees	360,000	360,000	-
Other	145,000	99,268	(45,732)
Depreciation and amortization	1,809,100	1,639,320	(169,780)
TOTAL OPERATING EXPENSES	7,428,400	7,288,100	(140,300)
OPERATING INCOME (LOSS)	1,866,100	1,151,791	(714,309)
NONOPERATING REVENUES (EXPENSES)			
Interest income	18,500	13,437	(5,063)
Interest expense	(706,316)	(374,372)	331,944
TOTAL NONOPERATING REVENUES (EXPENSES)	(687,816)	(360,935)	326,881
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,178,284	790,856	(387,428)
OPERATING TRANSFERS			
Transfers in	2,050,000	-	(2,050,000)
Transfers out	(3,417,000)	(2,791,028)	625,972
TOTAL OPERATING TRANSFERS	(1,367,000)	(2,791,028)	(1,424,028)
INCREASE (DECREASE) IN NET POSITION (Note 2)	\$ (188,716)	\$ (2,000,172)	\$ (1,811,456)

Note 1: Adjustments to account for the changes in the net position 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's budget includes a cash balance forward from the prior year which totals \$3,086,040. The cash balance forward amount is not included in this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$188,716.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
WASTEWATER DEPARTMENT
for the year ended June 30, 2023

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 3,325,000	\$ 3,255,387	\$ (69,613)
Transportation/surcharges	25,000	16,720	(8,280)
Other operating revenues	3,629,500	834,262	(2,795,238)
TOTAL OPERATING REVENUES	6,979,500	4,106,369	(2,873,131)
OPERATING EXPENSES			
Maintenance	612,000	564,897	(47,103)
Personnel services	1,321,800	927,095	(394,705)
Supplies	31,000	15,022	(15,978)
Utilities	470,000	486,822	16,822
Insurance	53,500	52,049	(1,451)
Engineering	37,500	10,950	(26,550)
Treatment	145,000	201,620	56,620
Other	147,000	122,517	(24,483)
Depreciation and amortization	1,250,000	1,135,611	(114,389)
TOTAL OPERATING EXPENSES	4,067,800	3,516,583	(551,217)
OPERATING INCOME (LOSS)	2,911,700	589,786	(2,321,914)
NONOPERATING REVENUES (EXPENSES)			
Interest income	15,000	83,790	68,790
Interest expense	(174,257)	(159,121)	15,136
TOTAL NONOPERATING REVENUES (EXPENSES)	(159,257)	(75,331)	83,926
INCOME (LOSS) BEFORE OPERATING TRANSFERS	2,752,443	514,455	(2,237,988)
OPERATING TRANSFERS			
Transfers in	-	32,401	32,401
Transfers out	(1,320,000)	-	1,320,000
TOTAL OPERATING TRANSFERS	(1,320,000)	32,401	1,352,401
INCREASE (DECREASE) IN NET POSITION (Note 1)	\$ 1,432,443	\$ 546,856	\$ (885,587)

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, 2023

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 4,365,000	\$ 4,003,816	\$ (361,184)
Other operating revenues	40,000	85,123	45,123
TOTAL OPERATING REVENUES	4,405,000	4,088,939	(316,061)
OPERATING EXPENSES			
Maintenance	335,000	311,574	(23,426)
Personnel services	1,711,000	1,442,117	(268,883)
Supplies	350,000	286,508	(63,492)
Utilities	36,500	26,933	(9,567)
Insurance	69,500	79,994	10,494
Landfill	1,100,000	1,215,912	115,912
Management fees	360,000	360,000	-
Other	149,800	59,469	(90,331)
Depreciation	250,000	304,916	54,916
TOTAL OPERATING EXPENSES	4,361,800	4,087,423	(274,377)
OPERATING INCOME (LOSS)	43,200	1,516	(41,684)
NONOPERATING REVENUES (EXPENSES)			
Interest income	2,500	9,631	7,131
Interest expense	(12,276)	(34,648)	(22,372)
Gain (loss) on asset disposal	501,790	96,806	(404,984)
TOTAL NONOPERATING REVENUES (EXPENSES)	492,014	71,789	(420,225)
INCOME (LOSS) BEFORE OPERATING TRANSFERS	535,214	73,305	(461,909)
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	(1,051,500)	(499,500)	552,000
TOTAL OPERATING TRANSFERS	(1,051,500)	(499,500)	552,000
(DECREASE) INCREASE IN NET POSITION (Note 1)	\$ (516,286)	\$ (426,195)	\$ 90,091

Note 1: The City's budget includes a cash balance forward from the prior year which totals \$1,170,010. The cash balance forward amount is not included in this schedule. Consequently, this schedule shows a budgeted decrease in net position of \$516,286.

CITY OF SOMERSET, KENTUCKY
STATEMENT OF REVENUES AND EXPENSES - BUDGET TO ACTUAL
VIRGINIA THEATER
for the year ended June 30, 2023

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 2,102,400	\$ 162,193	\$ (1,940,207)
Other operating revenues	110,000	1,245	(108,755)
TOTAL OPERATING REVENUES	2,212,400	163,438	(2,048,962)
OPERATING EXPENSES			
Salaries	137,000	87,901	(49,099)
Other operating expenses	1,804,470	546,532	(1,257,938)
Depreciation	100,000	112,724	12,724
TOTAL OPERATING EXPENSES	2,041,470	747,157	(1,294,313)
OPERATING INCOME (LOSS)	170,930	(583,719)	(754,649)
NONOPERATING REVENUES (EXPENSES)			
Interest income	100	51	(49)
Interest expense	(171,030)	(66,905)	104,125
TOTAL NONOPERATING REVENUES (EXPENSES)	(170,930)	(66,854)	104,076
INCOME (LOSS) BEFORE OPERATING TRANSFERS	-	(650,573)	(650,573)
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OPERATING TRANSFERS	-	-	-
(DECREASE) IN NET POSITION	\$ -	\$ (650,573)	\$ (650,573)



**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, 2023, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated November 17, 2023.

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
November 17, 2023



**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, 2023. 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, 2023.

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
November 17, 2023

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2023

GRANTOR/PROGRAM TITLE	Federal AL Number	Pass/Through Contract Number	Grant Contract Period	Passed Through to Subrecipients	Expenditures
U.S. Environmental Protection Agency					
Passed through the Kentucky Infrastructure Authority					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	21199002	7/1/2021-6/30/2023	\$ -	\$ 3,433,491
Passed through the Kentucky Division of Water					
Performance Partnership Grants	66.605	2100000918	7/1/2021-6/30/2023	-	34,494
Total U.S. Environmental Protection Agency				-	3,467,985
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	Note 3	7/1/2021-6/30/2023	-	449,000
Total U.S. Department of Housing and Urban Development				-	449,000
U.S. Department of Transportation					
Passed through the Kentucky Transportation Cabinet					
National Priority Safety Program	20.616	Note 3	7/1/2021-6/30/2023	-	28,849
Total U.S. Department of Transportation				-	28,849
U.S. Department of Homeland Security					
SAFER Grant	97.083	N/A	7/1/2021-6/30/2023	-	6,695
Total U.S. Department of Homeland Security				-	6,695
U.S. Department of Justice					
Body Worn Camera Policy and Implementation	16.835	N/A	7/1/2021-6/30/2023	-	42,043
Total U.S. Department of Justice				-	42,043
Total federal awards expended				\$ -	\$ 3,994,572

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. Passthrough grantor's number not available

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2023

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:

AL Numbers	Name of Federal Program or Cluster
66.468	Drinking Water State Revolving Funds
Dollar threshold used to distinguish between type A and type B programs: \$ 750,000	
Auditee qualified as a low-risk auditee? <u>X</u>Yes __No	

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE