

This Preliminary Official Statement and information contained herein are subject to change, completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JULY 14, 2020

**Book Entry Only
Bank Qualified
New Issue**

**Rating: S&P "AA/Stable" (Insured)
Moody's: "A2" (Underlying)-
See Rating herein**

In the opinion of Bond Counsel for the Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the City, and subject to the conditions and limitations set forth herein under the caption "LEGAL MATTERS – Tax Treatment" herein, interest on the Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$8,960,000*
CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020
(BANK QUALIFIED)

Dated: Date of Delivery

Due: February 1, as shown below

Maturity Date (February 1)	Principal Amount*	Interest Rate*	Yield	CUSIP**	Maturity Date (February 1)	Principal Amount*	Interest Rate*	Yield	CUSIP**
2021	\$245,000			834749	2034	\$355,000			834749
2022	295,000			834749	2035	365,000			834749
2023	295,000			834749	2036	375,000			834749
2024	300,000			834749	2037	385,000			834749
2025	305,000			834749	2038	390,000			834749
2026	310,000			834749	2039	400,000			834749
2027	315,000			834749	2040	410,000			834749
2028	315,000			834749	2041	420,000			834749
2029	325,000			834749	2042	435,000			834749
2030	330,000			834749	2043	445,000			834749
2031	335,000			834749	2044	455,000			834749
2032	340,000			834749	2045	465,000			834749
2033	350,000			834749					

Interest on the captioned bonds (herein the "Bonds") will be payable from the dated date, on February 1 and August 1, commencing February 1, 2021, and the Bonds mature on each February 1, as shown above.

The Bonds are being issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof. Interest payments will be mailed by the Paying Agent to each holder of record as of the fifteenth day of the month preceding the date for such interest payment.

The Bonds will be issuable under a book entry system, registered in the name of The Depository Trust Company ("DTC") or its nominee. There will be no distribution of the Bonds to the ultimate purchasers. See "Book Entry" herein. Principal and interest on the Bonds is payable at the corporate trust office of [Trustee, Louisville, Kentucky], as Paying Agent and Bond Registrar. The Bonds maturing on or after February 1, 2029 are subject to optional redemption prior to maturity at any time on or after February 1, 2028, as described herein.

The City deems this Preliminary Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12, except for certain information on the cover page hereof and certain pages herein which has been omitted in accordance with the Rule and will be provided with the final Official Statement.

The Bonds are offered when, as and if issued, subject to the approval of legality and tax exemption by Dinsmore & Shohl LLP, Bond Counsel, Covington, Kentucky. Certain legal matters have been passed upon for the City by John Adams, City Attorney. The Bonds are expected to be available for delivery on or about August 6, 2020.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.



THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.



*Preliminary; subject to change throughout.

CITY OF SOMERSET, KENTUCKY

Mayor
Alan Keck

City Council
David Burdine
Brian Dalton
Jerry Wheeldon
Jimmy Eastham
Jerry Girdler
Mike New
Donna Hunley
John R. Minton
Jim Mitchell
David Godsey
Amanda Bullock
Tom Eastham

City Attorney
John Adams

Chief of Staff
Jeffrey Edwards

Accounting Department, CFO
Mike Broyles

City Clerk
Nick Bradley

BOND COUNSEL
Dinsmore & Shohl LLP
Covington, Kentucky

MUNICIPAL ADVISOR
RSA Advisors, LLC
Lexington, Kentucky

BOND PAYING AGENT AND REGISTRAR
U.S. Bank National Association
Louisville, Kentucky

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- APPENDIX C - Statement of Indebtedness
- APPENDIX D - Estimated Debt Service Requirements on the Bonds and Total General Obligation Debt Service Requirements of the City
- APPENDIX E - Form of Legal Approving Opinion of Bond Counsel
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REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the City. No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Upon issuance, the Bonds will not be registered by the City under any federal or state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency except the City will have, at the request of the City, passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “Bond Insurance” and “Appendix F - Specimen Municipal Bond Insurance Policy”.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of such statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the City preliminary to sale of the Bonds should be regarded as part of the City’s contract with the successful bidder or the holders from time to time of the Bonds.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes (“KRS”) or uncodified, or to the provisions of the Kentucky Constitution or the City’s ordinances or resolutions, are references to such provisions as they presently exist. Any of these provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, “debt service” means principal of, interest and any premium on, the obligations referred to; “City” means the City of Somerset; and “State” or “Kentucky” means the Commonwealth of Kentucky.

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of \$8,960,000* aggregate principal amount of General Obligation Refunding Bonds, Series 2020 (the “Bonds”) of the City of Somerset, Kentucky as specified on the cover hereof.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

The Issuer

The Bonds are being issued by the City of Somerset, Kentucky (the “City”), a municipal corporation and political subdivision of the State of Kentucky. The City is located in Pulaski County in Northern Kentucky.

Authority for Issuance

Authority for the issuance of the Bonds is provided by Sections 66.011 through 66.171 of the Kentucky Revised Statutes and an ordinance (the “Ordinance”) to be adopted by the City Council of the City on June 22, 2020.

Purpose of the Bonds

The Bonds are being issued for the purpose of (i) refunding the City’s outstanding General Obligation Bonds (Energy Center Project) 2015A and General Obligations Bonds (Energy Center Project) 2015B (together, the “Prior Bonds”) the proceeds of which were used to finance the acquisition, construction, and equipping of an energy center for the use of the City. (See “PLAN OF REFUNDING”).

Sources of Payment for the Bonds

The Bonds are general obligation debt of the City. The basic security for the Bonds is the City’s ability to levy an annual tax to pay the interest on and principal of the Bonds as and when the same become due and payable.

Description of the Bonds

The Bonds mature as indicated on the cover page hereof. The Bonds are being offered in the denominations of \$5,000 or any integral multiple thereof. The Bonds are initially being issued in Book-Entry-Only form registered in the name of DTC or its nominee. There will be no distribution of Bonds to ultimate purchasers (see “BOOK-ENTRY,” herein).

Redemption. The Bonds maturing on and after February 1, 2029 shall be subject to optional redemption prior to their maturity on any date on or after February 1, 2028, in whole or in part, in such order of maturity as shall be selected by the City, and by lot within a maturity, at the election of the City upon 45 days’ written notice to the Paying Agent and Registrar (as hereinafter defined) at a redemption price equal to the par amount thereof, plus accrued interest to the date of redemption. The Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption commencing February 1, 20__. (See “DESCRIPTION OF THE BONDS - Redemption Provisions”, herein).

Book Entry

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by [Trustee, Louisville, Kentucky], as Registrar and Paying Agent (the “Trustee, Registrar and Paying Agent”). See “BOOK-ENTRY” herein.

Payment of Bonds and Paying Agent and Registrar

Principal of the Bonds will be paid in lawful money of the United States of America at the offices of [Trustee, Louisville, Kentucky] (the “Paying Agent and Registrar”), and interest shall be mailed by the Paying Agent and Registrar to the record date registered holders at the address of such holder maintained on the registration book of the Paying Agent and Registrar. The record dates for February 1 and August 1 interest payment dates on the Bonds shall be the preceding January 15 and July 15, respectively.

Interest

The Bonds shall be dated their date of initial issuance and delivery and bear interest at the rates set forth on the cover hereof, payable semi-annually on February 1 and August 1, beginning February 1, 2020.

Tax Treatment

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, interest on the Bonds will not be febrtreated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds. Interest on the Bonds is also exempt from income taxation and the bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The City has designated the Bonds as “qualified tax-exempt obligations” with respect to certain financial institutions under Section 265 of the Internal Revenue Code of 1986, as amended.

See “LEGAL MATTERS – Tax Treatment” herein and Appendix E for the form of the opinion Bond Counsel proposes to deliver in connection with the Bonds.

Parties to the Issuance of the Bonds

The Paying Agent and Registrar is [Trustee, Louisville, Kentucky]. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest on the Bonds are subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. The Municipal Advisor to the City is RSA Advisors, LLC.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued by the City. The Bonds will be delivered on or about August 6, 2020 in New York, New York through the Depository Trust Company (DTC).

Disclosure Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the City are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Bonds, including the authorizing ordinances and the note forms, are available from the City.

The City deems this Preliminary Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) except for certain information on the cover page hereof and certain pages herein which has been omitted in accordance with the Rule and will be provided with the final Official Statement.

Additional Information

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Bonds, is available from RSA Advisors, LLC, Municipal Advisor to the City of Somerset, 325 West Main Street, Suite 300, Lexington, KY 40507, Telephone (859) 977-6600.

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DESCRIPTION OF THE BONDS

The Bonds are dated their date of initial issuance and delivery and bear interest from such date at the rates set forth on the cover page of this Official Statement. The Bonds are being issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Bonds is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2021. Interest on all Bonds is payable by check or draft mailed to the registered holder by [Trustee, Louisville, Kentucky], the Paying Agent and Registrar. Principal is payable when due to the registered holder upon surrender of the Bonds at the corporate trust office of the Paying Agent and Registrar in Louisville, Kentucky.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after February 1, 2029 shall be subject to optional redemption prior to their maturity on any date on or after February 1, 2028, in whole or in part, in such order of maturity as may be designated by the City, and by lot within a maturity, at the election of the City upon 45 days' written notice to the Paying Agent and Registrar (as hereinafter defined) at a redemption prices equal to the par amount thereof, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption on February 1, of the years in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount Subject to Redemption</u>
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Notice of Redemption

If less than all Bonds which are payable by their terms on the same date are to be called, the particular Bonds or portions of Bonds payable on such same date and to be redeemed from such series shall be selected by lot by the Paying Agent and Registrar, in such manner as the Paying Agent and Registrar in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof, and that, in selecting Bonds for redemption, the Paying Agent and Registrar shall treat each bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

At least thirty (30) days before the redemption date of any Bonds the Paying Agent and Registrar shall cause a notice of such redemption either in whole or in part, signed by the Paying Agent and Registrar, to be mailed, postage prepaid, to all registered owners of Bonds to be redeemed in whole or in part at their addresses as they appear on the registration books kept by the Paying Agent and Registrar, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive numbers or letters, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Bond is to be redeemed in part only, the notice of redemption which relates to such Bond shall state

also that on or after the redemption date upon surrender of such Bonds, a new Bond in principal amount equal to the unredeemed portion of such Bonds will be issued.

On the date so designated for redemption, notice having been sent in the manner and under the conditions hereinabove provided and moneys for payment of the redemption price being held in separate accounts by the Paying Agent and Registrar for the holders of the Bonds or portions thereof to be redeemed, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or portions of Bonds on such date, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, and the holders or registered owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and to receive Bonds for any unredeemed portions of Bonds.

In case part but not all of an outstanding Bond shall be selected for redemption, the registered owner thereof or his attorney or legal representative shall present and surrender such Bond to the Paying Agent and Registrar for payment of the principal amount hereof so called for redemption, and the City shall execute and the Paying Agent and Registrar shall authenticate and deliver to or upon the order of such registered owner or his legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered a Bond of the same series and maturity and bearing interest at the same rate.

Security and Source of Payment for Bonds

The Bonds are general obligations of the City and the full faith, credit and taxing power of the City is irrevocably pledged to the payment of principal of and interest on the Bonds when due. The basic security for the general obligation debt of the City, including the Bonds, is the City's ability to levy, and its pledge to levy, an annual tax to pay the interest on and principal of the Bonds as and when the same become due and payable. The tax must be levied in sufficient amount to pay, as the same become due, the principal of and interest on the Bonds as well as the principal of and interest on all outstanding general obligation bonds and bond anticipation notes of the City. The Constitution of the State mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Ordinance levies such annual tax which shall be collected to the extent other lawfully available monies of the City are not provided. The Ordinance also maintains a sinking fund into which the proceeds of such tax or other lawfully available monies of the City are to be deposited for payment of the interest on and principal of the Bonds and shall not be used for any other purpose.

Chapter 9 of the Federal Bankruptcy Code contains provisions relating to the adjustment of debts of a State's political subdivisions, public agencies and instrumentalities ("eligible entity"), such as the City. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its bonds and notes.

Section 66.400 of the Kentucky Revised Statutes permits a political subdivision, such as the City, for the purpose of enabling such subdivision to take advantage of the provisions of the Bankruptcy Code, and for that purpose only, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

Statutory Lien

The In April 2019, the Kentucky General Assembly enacted amendments to KRS Chapter 58 via Senate Bill 192 (the “2019 Amendments”) to provide a statutory lien on tax revenues pledged for the benefit of general obligation debt.

The 2019 Amendments creating the statutory lien, provide, among other things, that the tax revenues pledged for the repayment of principal of, premium and interest on all general obligation bonds and notes, whether or not the pledge is stated in the bonds and notes or in the proceedings authorizing the issue and the pledge constitutes a first lien on such tax revenues. In addition, the legislation creates a statutory lien on annual appropriations for the payment of obligations subject to annual renewal, including without limitation leases entered into under KRS Chapter 58 and KRS Chapter 65.

The validity and priority of the statutory lien have not been adjudicated in any Chapter 9 bankruptcy proceeding or otherwise.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Series 2020A Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Series 2020A Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Series 2020A Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee

the market price or liquidity of the Series 2020A Bonds, nor does it guarantee that the rating on the Series 2020A Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$459.6 million, \$126.1 million and \$333.5 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditisights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Series 2020A Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

BOOK ENTRY

The Bonds initially will be issued solely in certificated form, but may be issued in book entry form to be held in the book-entry only system maintained by The Depository Trust Company (“DTC”), New York, NY. So long as such book entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to Beneficial Owners (as defined below) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Ordinance.

The following information about the book-entry only system applicable to the Bonds has been supplied by DTC. Neither the City nor the Paying Agent and Registrar make any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond for each maturity will be issued and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent and Registrar and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent and Registrar. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent and Registrar's DTC account.

NEITHER THE CITY NOR THE PAYING AGENT AND REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE PAYING AGENT AND REGISTRAR AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE ORDINANCE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption, elections to tender Bonds or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Bonds.

The City and the Paying Agent and Registrar cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

DTC may determine to discontinue providing its service as securities depository with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law. In such event, the Ordinance provides for issuance of fully registered Bonds ("Replacement Bonds") directly to the Beneficial Owners of Bonds, other than DTC or its nominee, only in the event that DTC resigns or is removed as the securities depository for the Bonds. Upon the occurrence of this event, the City and the Paying Agent and Registrar may appoint another qualified depository. If the City and the Paying Agent and Registrar fail to appoint a successor depository, the Bonds shall be withdrawn from DTC and issued in fully registered form, whereupon the City shall execute and the Paying Agent and Registrar, as authenticating agent, shall authenticate and deliver Replacement Bonds in the denomination of \$5,000 or integral multiples thereof. The City will pay for all costs and expenses of printing, executing and authenticating the Replacement Bonds. Transfer and exchange of such Replacement Bonds shall be made as provided in the Ordinance.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE, BUT THE CITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

PLAN OF REFUNDING

The Bonds are being issued for the purpose of refunding the City's outstanding General Obligation Bonds (Energy Center Project) 2015A and General Obligation Bonds (Energy Center Project)

2015B, (the “Prior Bonds”) and (ii) paying the costs of issuing the Bonds. The Prior Bonds were issued to finance the acquisition, construction, and equipping of an energy center for use by the City;

The refunding plan is being undertaken to provide interest costs savings to the City.

ESTIMATED SOURCES AND USES OF FUNDS

Sources:

Bond Proceeds	\$ _____
[Plus Original Issue Premium][Less Original Issue Discount]	_____
Total Sources	\$ _____

Uses:

Underwriter’s Discount	\$ _____
Deposit to Bond Fund for Prior Bonds	_____
Cost of Issuance	_____
Total Uses	\$ _____

INVESTMENT CONSIDERATIONS

The following is a discussion of certain investment considerations for investors to consider of risks that could affect payments to be made with respect to the Bonds. Such discussion is not exhaustive and should be read in conjunction with all other parts of this Official Statement, and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described in this Official Statement.

Limitation on Enforcement of Remedies

Enforcement of the remedies applicable to the Bonds under their authorizing Bond Ordinance may be limited or restricted by laws relating to bankruptcy and insolvency, and rights of creditors under application of general principles of equity, and may be substantially delayed in the event of litigation or statutory remedy procedures. All legal opinions delivered in connection with the Bonds relating to enforceability contain an exception relating to the limitations that may be imposed by bankruptcy and insolvency laws, and the rights of creditors under general principals of equity.

Risk of Bankruptcy

The obligations of the City under the Bonds and the Bond Ordinance are general obligations of the City and are secured only by the pledge to the bondholders of the City’s full faith, credit, and taxing power, any monies held in the City’s Debt Sinking Fund (on a parity with other general obligation debt), the Bond Payment Fund established under the authorizing Bond Ordinance (the “Bond Payment Fund”), and the statutory lien provided by KRS 66.400. A bondholder’s enforcement of any remedies provided under an applicable Bond Ordinance may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors’ rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures. The validity and priority of the statutory lien provided under KRS 66.400 have not been adjudicated in any Chapter 9 bankruptcy proceeding or otherwise.

KRS 66.400 permits the City to file a petition for relief under Chapter 9 of Title 11 of the United States Code (the “Bankruptcy Code”) without the prior approval of any official or department of state government. If the City were to file such a petition, the filing would operate as an automatic stay of the

commencement or continuation of any judicial or other proceeding against the City and any interest in monies contained in the sinking fund, applicable Payment Fund, the City's general fund revenues or the City's taxing power. However, the petition does not stay the application of pledged special revenues as defined by the Bankruptcy Code.

During its bankruptcy, the City could use its property, including its tax receipts and proceeds thereof, but excluding pledged special revenues, for the benefit of the City's bankruptcy estate despite the claims of its creditors. Notwithstanding the foregoing, it is possible that pledged special revenues could also be used by the City post-petition to pay certain operating expenses.

In a Chapter 9 proceeding under the Bankruptcy Code, only the City, and not any other creditor or party in interest, could file a proposed plan of adjustment. The plan is the vehicle for satisfying, and provides for the comprehensive treatment of, all claims against the City, and could result in the modification of rights of any class of creditors, secured or unsecured, and which modification of rights could be contrary to state law. To confirm a plan of adjustment, with one exception discussed below, it must be approved by the vote of each class of impaired creditors. A class approves a plan if, of those who vote, those holding more than one-half in number and at least two-thirds in amount vote in favor of a plan. If fewer than all of the impaired classes accept the plan, the plan may nevertheless be confirmed by the bankruptcy court, and all claims and interests would be bound thereby regardless of whether or how they voted. For this "cramdown" to occur, at least one of the impaired classes must vote to accept the plan and the bankruptcy court must determine that the plan does not "discriminate unfairly" and is "fair and equitable" with respect to the non-consenting class or classes. To be confirmed, the bankruptcy court must also determine that the plan, among other requirements, is proposed in good faith and is in the best interest of creditors such that the plan represents a reasonable effort by the City to satisfy its debts that is a better alternative than dismissal of the bankruptcy case. Unlike in Chapter 11, in Chapter 9 this standard does not include use of a liquidation analysis.

Generally speaking, the City would likely receive a discharge after (1) the plan is confirmed; (2) the City deposits any consideration to be distributed under the plan with a disbursing agent appointed by the bankruptcy court; and (3) the bankruptcy court determines that the securities deposited with the disbursing agent will constitute valid and legal obligations of the City and that any provision made to pay or secure payment of such obligations is valid.

Prospective bondholders should consult their legal counsel regarding the impact of a bankruptcy filing by the City on the payment and security of the Bonds.

Suitability of Investment

An investment in the Bonds involves a certain degree of risk. The interest rates borne by the Bonds is intended to compensate the investor for assuming this element of risk. Prospective investors should carefully examine this Official Statement, including the Appendices hereto, and assess their ability to bear the economic risk of such an investment and determine whether or not the Bonds are an appropriate investment for them.

Additional Debt

The City may from time to time issue additional general obligation bonds or notes. Such issuances of general obligation bonds or notes would increase debt service requirements and could adversely affect debt service coverage on the Bonds.

General Economic Conditions

Adverse general economic conditions may result in, among other adverse circumstances, reduction in occupational license fee and general tax revenues or declines in investment portfolio values,

resulting in increased funding requirements; negatively impacting the results of operations and the overall financial condition of the City.

Market for the Bonds

There is presently no secondary market for the Bonds and no assurance that a secondary market will develop. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes.

Bond Rating

There can be no assurance that the rating assigned to the Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Bonds. See the information under the heading “RATING” herein for more information.

Tax Implications

Prospective purchasers of the Bonds may need to consult their own tax advisors before any purchase of the Bonds as to the impact of the Internal Revenue Code of 1986, as amended (the “Code”), upon their acquisition, holding, or disposition of the Bonds.

Global Health Emergency Risk

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus. On March 6, 2020, Kentucky’s Governor Andy Beshear declared a state of emergency, directing state agencies to use all resources necessary to prepare for and respond to the outbreak. On March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds to help states and local governments fight the pandemic. The current spread of COVID-19 is altering the behavior of businesses and people in a manner that may have negative effects on economic activity, and therefore adversely affect the financial condition of the Issuer and the Participants, either directly or indirectly.

PROFILE OF THE CITY AND SURROUNDING AREA

Economic and financial information with respect to the City is set forth in Appendix A hereto.

CITY GOVERNMENT

Elected and Appointed Officials

The City of Somerset is governed by a City Council, comprised of a Mayor, elected to a four year term, and twelve (12) council members who are elected to two year terms. The Mayor is presently Alan Keck, whose current term ends on December 31, 2022. The present members of the City Council and their terms of office are as follows:

<u>Member</u>	<u>Term Began</u>	<u>Current Term Ends</u>
David Burdine	January 1, 2019	December 31, 2020
Brian Dalton	January 1, 2019	December 31, 2020
Jerry Wheeldon	January 1, 2019	December 31, 2020
Jimmy Eastham	January 1, 2019	December 31, 2020
Jerry Girdler	January 1, 2019	December 31, 2020
Mike New	January 1, 2019	December 31, 2020
Donna Hunley	January 1, 2019	December 31, 2020
John R. Minton	January 1, 2019	December 31, 2020
David Godsey	January 1, 2019	December 31, 2020
Amanda Bullock	January 1, 2019	December 31, 2020
Tom Eastham	January 1, 2019	December 31, 2020

The current appointed City officials who serve at the pleasure of City Council are:

Chief of Staff	Jeffrey Edwards
Chief Financial Officer	Mike Broylers
City Attorney	John Adams
City Clerk	Nick Bradley

Financial Matters

The Chief Financial Officer is the fiscal officer of the City, and is appointed by and serves at the pleasure of the City Council. The Chief Financial Officer is responsible for the accounting, collection, custody and disbursement of the funds of the City. The Chief Financial Officer serves the City Council and the City Coordinator as Municipal Advisor in connection with City affairs, and performs such other duties as the City Council or City Coordinator request.

The City's fiscal year commences July 1 and ends the following June 30.

The administrative functions of the City are performed by or under the supervision of the following:

1. Establishment of overall financial policy, the City Council.
2. Planning and development, the City Coordinator and Business and Community Development Director.
3. Assessment of real and personal property, the Pulaski County Property Valuation Administrator.
4. Financial control functions, the Chief Financial Officer.

5. Inspection and supervision of the accounts and reports of the City as required by law, by independent certified public accountants.

Financial Management

The City Council is responsible for appropriating the funds used to support the various City activities. The City Council exercises its legislative powers by budgeting, appropriating, levying taxes issuing bonds and notes, and letting contracts for public works and services to provide this financial management.

Financial Reports and Examinations of Accounts

Each city in the State is required to keep its accounting records and render financial reports in such a way as to: (a) determine compliance with statutory provisions; (b) determine fairly and with full disclosure the financial operations of consistent funds and account groups of the city in conformity with generally accepted governmental accounting principles; and (c) readily provide such financial data as may be required by the federal revenue sharing program. Municipal accounting systems are required to be organized and operated on a fund basis. The City maintains its accounts and other fiscal records on an appropriation and modified accrual basis in accordance with the procedures established and prescribed by the Kentucky Department for Local Government.

As required by law, financial reports are prepared annually by the City and filed with the Kentucky Department for Local Government. Audits are required to be completed by the February 1st immediately following the fiscal year being audited.

The accounting procedures prescribed by the Kentucky Department for Local Government are generally applicable to all cities in Kentucky and may be different from generally accepted government accounting principles as presented and recommended in the National Council on Governmental Accounting publication "Governmental Accounting Auditing and Financial Reporting," and the Industry Audit Guide of the American Institute of Certified Public Accountants, entitled "Audits of State and Local Governmental Units." Those publications, among other things, provide for a modified accrual basis of accounting for the general fund, all special revenue funds and the debt service fund, and for a full accrual basis of accounting for all other funds, and further provide for the preparation for each fund of balance sheets, statements of revenues and expenditures, and statements showing changes in fund balances.

Budgeting and Appropriations Procedures

Detailed provisions for City budgeting, tax levies and appropriations are made in the Kentucky Revised Statutes. Cities are required to operate under an annual budget ordinance and no City may expend any moneys from a governmental or proprietary fund except in accordance with such budget. A budget proposal must be submitted to the City's legislative body no later than 30 days prior to the beginning of the fiscal year covered by the budget. No budget ordinance may be adopted which provides for appropriations to exceed revenues and the available fund balance in a fiscal year. The full amount estimated to be required for debt service during the budget year must be appropriated.

Investment Policies

Section 66.480 of the Kentucky Revised Statutes sets forth the requirements and limitations for investments of the state's political subdivisions, including the City. Under that Section, the City must adopt an investment policy and may invest its funds only in the classifications of obligations; which are eligible for investment, which are as follows:

- (a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States governmental agency, including but not limited to:
 - 1. United States Treasury;
 - 2. Export-Import Bank of the United States;
 - 3. Farmers Home Administration;
 - 4. Governmental National Mortgage corporation; and
 - 5. Merchant Marine bonds;
- (c) Obligations of any corporation of the United States government, including but not limited to:
 - 1. Federal Home Loan Mortgage Corporation;
 - 2. Federal Farm Credit Banks;
 - 3. Bank for Cooperatives;
 - 4. Federal Intermediate Credit Banks;
 - 5. Federal Land Banks;
 - 6. Federal Home Loan Banks;
 - 7. Federal National Mortgage Association; and
 - 8. Tennessee Valley Authority;
- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(d);
- (e) Uncollateralized certificates of deposit issued by any bank or savings and loan institutions rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
- (g) Commercial paper rated in the highest category by a nationally recognized rating agency;
- (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
- (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three highest categories by a nationally recognized rating agency; and
- (j) Shares of mutual funds, each of which shall have the following characteristics;
 - 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;

2. The management company of the investment company shall have been in operation for at least five (5) years; and
3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The City's current investment policy is more restrictive than is permitted by State law.

The City values safety, liquidity and return, in that order.

Debt Limitation

Kentucky Constitution Section 158 provides that cities shall not incur indebtedness to an amount exceeding the following maximum percentages on the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness:

- (a) Cities having a population of fifteen thousand (15,000) or more, ten percent (10%);
- (b) Cities having a population of less than fifteen thousand (15,000) but not less than three thousand, five percent (5%); and
- (c) Cities having a population of less than three thousand (3,000), three percent (3%).

Nothing shall prevent the issue of renewal bonds, or bonds to fund the floating indebtedness of any city, county, or taxing district. Subject to the limits and conditions set forth in that section and elsewhere in the Constitution, the General Assembly has the power to establish additional limits on indebtedness and conditions under which debt may be incurred by cities.

KRS 66.041 provides the same limitations as are set forth in the Constitution except that the limitations apply to "net indebtedness." In calculating "net indebtedness," KRS 66.031 provides that certain obligations of a municipality are not to be considered in the calculation, including self-supporting obligations, revenue bonds, and special assessment debt. (For a complete list of exempt debt see the Statement of Indebtedness attached as Appendix C.)

Other infrequently-issued types of obligations are also excluded from the calculation of net indebtedness. The City has no such obligations outstanding. Notes issued in anticipation of bonds excluded from the calculation of net indebtedness are also excluded from such calculation. Appendix C of this Official Statement is a Statement of Indebtedness for the City, certified by the Mayor, calculating the amount of the outstanding obligations of the City (including the Bonds) which are subject to the total direct debt limit (10% limit). The total principal amount of general obligation debt that could be issued by the City, subject to the 10% total direct debt limitation is [Debt Ceiling] and the City's net debt subject to such limitation presently outstanding (including the Bonds and excluding the Refunded Bonds) is \$[total indebtedness] leaving a balance of approximately \$[Debt Capacity] borrowing capacity issuable within such limitation.

However, as described below, the City's ability to incur debt in these amounts is restricted by tax limitations. In the case of general obligation debt, both the debt limitations and tax limitations must be met.

Tax Limitation

The Kentucky Constitution Section 157 also indirectly imposes a debt limitation on general obligation indebtedness of Cities by limiting the tax rates cities may impose upon the value of taxable property, as follows:

- (a) cities having a population of fifteen thousand or more, one dollar and fifty cents on each hundred dollars of assessed value;
- (b) cities having a population of less than fifteen thousand and not less than ten thousand, one dollar on each hundred dollars of assessed value; and
- (c) cities having a population of less than ten thousand, seventy-five cents on the hundred dollars.

Section 159 of the Kentucky Constitution requires the collection of an annual tax sufficient to pay the interest on contracted indebtedness and to retire indebtedness over a period not exceeding forty years. The two constitutional provisions operate as a limit on general obligation debt. Because the indirect debt limit results from tax limitations and the requirement to levy taxes to pay debt charges, it has application only to debts which are payable from taxes either initially or in the event other pledged non-tax revenues prove to be insufficient. It does not have any application where the type of debt being issued does not pledge the credit of the municipality or when the debt is payable solely out of the revenues of non-tax sources, such as utility income.

Appendix C of this Official Statement contains a Statement of Indebtedness, certified by the City, setting forth the property tax rates currently levied by the City of \$.130 per \$100 for real property and \$.130 for personal property and certifying that the issuance of the Bonds will not cause such rates to increase to amounts which would exceed the maximum permissible rates.

Bond Anticipation Notes

Under Kentucky law, notes, including renewal notes, issued in anticipation of general obligation bonds may be issued from time to time upon the same terms and conditions as bonds except that notes may be sold by private negotiated sale in a manner determined or authorized by the legislative authority.

The ability of the City to retire bond anticipation notes from the proceeds of the sale of either renewal notes or bonds will be dependent upon the marketability of such renewal notes or bonds under market conditions then prevailing.

Future Borrowings of the City

The City does not presently anticipate any additional borrowings for the foreseeable future.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of Tax-Exempt Bonds are subject to the approving legal opinion of Dinsmore & Shohl LLP, Bond Counsel. Upon delivery of the Bonds of the City to the successful bidder therefor, the Bonds will be accompanied by an approving opinion dated the date of such delivery, rendered by Dinsmore & Shohl LLP. A draft of such legal opinion for the Bonds is attached as Appendix E.

Said firm as Bond Counsel has performed certain functions to assist the City in the preparation by the City of its Official Statement. However, said firm assumes no responsibility for, and will express no opinion regarding the accuracy or completeness of this Official Statement or any other information relating to the City or the Bonds that may be made available by the City or others to the bidders or holders of the Bonds or others.

The engagement of said firm as Bond Counsel is limited to the preparation of certain of the documents contained in the transcript of proceedings with regard to the Bonds, and an examination of such transcript proceedings incident to rendering its legal opinion. In its capacity as Bond Counsel, said firm has reviewed the information in this Official Statement under Sections entitled “General Information” as to legal matters, “Authority for Issuance”, “Security and Source of Payment for Bonds”, “Debt Limitation”, “Tax Limitation” and “Tax Treatment”, which review did not include any independent verification of financial statements and statistical data included therein, if any.

Transcript and Closing Certificates

A complete transcript of proceedings, a no-litigation certificate and other appropriate closing documents will be delivered by the City when the Bonds are delivered to the original purchaser. The City will also provide to the original purchaser, at the time of such delivery, a certificate from the City’s Mayor and or Treasurer addressed to such purchaser relating to the accuracy and completeness of this Official Statement.

Litigation

To the knowledge of the City, no litigation or administrative action or proceeding is pending or threatened directly affecting the Bonds, the security for the Bonds or the improvements being financed from the proceeds of the Bonds. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Bonds.

Tax Treatment

General

In the opinion of Bond Counsel for the Tax-Exempt Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds will be excludible from gross income for Federal income tax purposes. Bond Counsel for the Bonds is also of the opinion that interest on the Bonds will not be a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the “Code”) for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Bonds is set forth in Appendix E, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

Certain requirements and procedures contained or referred to in the Bond documents and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bonds or the interest thereon if any

such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Dinsmore & Shohl LLP.

Although Bond Counsel for the Bonds is of the opinion that interest on the Bonds will be excludible from gross income for Federal income tax purposes and that interest on the Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Bonds on the tax liabilities of the individual or entity.

Receipt of tax-exempt interest, ownership or disposition of the Bonds may result in other collateral federal, state or local tax consequences for certain taxpayers. Such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Bonds.

The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

Original Issue Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount

The Bonds having a yield that is higher than the interest rate (as shown on the cover page hereof) are being offered and sold to the public at an original issue discount (“OID”) from the amounts payable at maturity thereon (the “Discount Bonds”). OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the “issue price” of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the “yield to maturity”). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser’s tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

RATING

Moody’s Investors Service, Inc. (“Moody’s”) has given the Bonds the rating of “A2”. Such rating reflects only the view of Moody’s. An explanation of the significance of the rating given by Moody’s may be obtained from Moody’s Investors Service at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 553-0300. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Moody’s, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the “Rule”) and so long as the Bonds are outstanding the City (the “Obligated Person”) will agree pursuant to an Undertaking to be dated as of the date of issuance and delivery of the Bonds (the “Disclosure Undertaking”), to cause the following information to be provided:

(i) to the Municipal Securities Rulemaking Board (“MSRB”), or any successor thereto for purposes of the Rule, through the continuing disclosure service portal provided by the MSRB’s Electronic Municipal Market Access (“EMMA”) system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission, certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained in “Appendix A,” Appendix B and “Appendix C” of the Official Statement (“Financial Data”). The annual financial information shall be provided within 210 days after the end of the fiscal year ending June 30, commencing with the fiscal year ending June 30, 2020; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person;

(ii) to the MSRB through EMMA, in a timely manner, not in excess of ten business days after the occurrence of the event, notice of the occurrence of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if material;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- (g) Modifications to rights of security holders, if material;
- (h) Bond calls, if material, and tender offers (except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event);
- (i) Defeasances;
- (j) Release, substitution or sale of property securing repayment of the securities, if material;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);
- (m) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

- (o) Incurrence of a financial obligation of the Issuer or Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or Obligated Person, any of which affect security holders, if material; and
 - (p) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the issuer or obligated person, any of which reflect financial difficulties.
- (iii) in a timely manner, to the MSRB through EMMA, notice of a failure (of which the Obligated Persons have knowledge) of the Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Agreement.

The Disclosure Undertaking provides bondholders, including beneficial owners of the Bonds, with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Disclosure Undertaking does not constitute an event of default under the Ordinance. The Disclosure Undertaking may also be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein.

For purposes of this transaction with respect to events as set forth in the Rule:

- (a) there are no debt service reserve funds applicable to the Bonds;
- (b) there are no credit enhancements applicable to the Bonds;
- (c) there are no liquidity providers applicable to the Bonds; and
- (d) there is no property securing the repayment of the Bonds.

The City has previously entered into continuing disclosure undertakings pursuant to the Rule (the “Prior Disclosure Undertakings”). Annual Financial Data required to be submitted under the Prior Disclosure Undertakings for the City’s outstanding general obligation bonds which was required to be filed on March 30, 2018 was filed on February 27, 2019, and a notice of failure to timely file was posted to EMMA on April 13, 2018,

The City intends to file all future Annual Financial Data within the time requirements specified in the Prior Disclosure Undertakings and in the Disclosure Undertaking.

UNDERWRITING

The Bonds are being purchased for reoffering by _____ (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at an aggregate purchase price of \$_____ (reflecting the par amount of the Bonds, less original issue discount of \$_____ and less underwriter’s discount of \$_____). The initial public offering prices which produce the yields set forth on the cover page of this Official Statement may be changed by the Underwriter and the Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the offering prices which produce the yields set forth on the cover page.

MUNICIPAL ADVISOR

RSA Advisors, LLC (“RSA”), Lexington, Kentucky, has been employed by the City to serve as Municipal Advisor. Certain information relative to the location, economy and finances of the City is found in the Preliminary Official Statement, in final form, and the Official Statement, in final form. All such data, as is the case for other information herein contained, was prepared for and with the assistance of the City under the direction of RSA. While not guaranteed as to completeness or accuracy, the Preliminary Official Statement, in final form, and the Official Statement, in final form, are believed to be

correct as of their respective dates. As the Municipal Advisor for this transaction, RSA has reviewed the information in the Preliminary Official Statement and the Official Statement, in final form, in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction; but RSA does not guarantee the accuracy or completeness of such information.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the City from official and other sources and is believed by the City to be reliable, but such information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Bonds.

[Signature Page to Follow]

APPENDIX A
CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

DEMOGRAPHIC, ECONOMIC AND FINANCIAL DATA
CITY OF SOMERSET, KENTUCKY

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CITY OF SOMERSET, KENTUCKY

Somerset, the county seat of Pulaski County had a population of 11,457 according to the 2019 census. Somerset is located 162 miles south of Cincinnati, Ohio; 74 miles south of Lexington, Kentucky; and 128 miles southeast of Louisville, Kentucky. Pulaski County had an estimated population of 64,524 persons in 2019.

The Economic Framework

Pulaski County has a labor force of 27,444 people, with an unemployment rate of 4.7%. The top 5 jobs by occupation are as follows: office and administrative support – 4,042 (13.66%); sales – 3,292 (11.13%); executive managers and administrators – 2,457 (8.3%); production workers – 2,116 (7.15%); and health diagnosing and treating practitioners – 1,967 (6.65%).

Transportation

Interstate 75, runs next to Pulaski County. The nearest commercial airline service is in Lexington, Kentucky at the Bluegrass International Airport, which is located 74 miles north of Somerset.

Power and Fuel

Electric power is provided to Pulaski County by the E.ON U S-KU, East Kentucky Power Cooperative, Jackson Energy Cooperative, Kentucky Utilities and South Kentucky RECC. Natural gas services are provided by Somerset Gas.

Education

The Pulaski County School System, Science Hill Independent Schools and Somerset Independent Schools all provide primary education to the residents of Pulaski County. There are 14 colleges and universities and 18 technology centers (ATC) within 60 miles of Somerset.

LABOR MARKET STATISTICS

The Somerset Labor Market Area includes Lincoln, Casey, Rockcastle, Adair, Pulaski, Laurel, Russell, Wayne and McCreary counties in Kentucky.

Population

Description	-----Estimate Year-----				
	2015	2016	2017	2018	2019
Pulaski County	63,827	63,956	64,449	64,623	64,524
Somerset	11,446	11,487	11,423	11,486	11,457

Source: U.S. Department of Commerce, Bureau of the Census

Population Projections

Description	-----Estimate Year-----		
	2025	2030	2035
Pulaski County	67,345	68,854	70,180

Source: Kentucky State Data Center, University of Louisville

Unemployment Statistics

Description	-----Year Ending December 31-----				
	2015	2016	2017	2018	2019
County of Pulaski					
Civilian Labor Force	25,801	25,895	25,539	25,821	25,712
Employment	24,301	24,508	24,115	24,528	24,480
Unemployment	1,500	1,387	1,424	1,293	1,232
Unemployment Rate	5.8%	5.4%	5.6%	5.0%	4.8%
Commonwealth of Kentucky					
Civilian Labor Force	1,979,694	2,012,279	2,052,368	2,057,791	2,072,586
Employment	1,872,326	1,909,158	1,952,066	1,968,611	1,983,577
Unemployment	104,641	103,121	100,302	89,180	89,009
Unemployment Rate	5.3%	5.1%	4.9%	4.3%	4.3%
U.S. Comparable Rate					
Unemployment Rate	5.3%	4.9%	4.4%	3.9%	3.7%

Source: The Kentucky Department for Employment Services

LOCAL GOVERNMENT

Structure

Somerset's Government structure consists of a Mayor and twelve Council members. The Mayor serves a four-year term while the Council Members serve two-year terms. Pulaski County is served by a Judge/Executive and five Magistrates. The Judge/Executive and Magistrates are elected to serve a four-year term.

Planning and Zoning

Mandatory state codes enforced—Kentucky Plumbing Code, National Electric Code, Kentucky Boiler Regulations and Standards, Kentucky Building Code (modeled after BOCA code).

Sales and Use Tax

A state sales and use tax is levied at the rate of 6.0% on the purchase or lease price of taxable goods and on utility services. Local sales taxes are not levied in Kentucky.

State and Local Property Taxes

The Kentucky Constitution requires the state to tax all classes of taxable property, and state statutes allow local jurisdictions to tax only a few classes. All locally taxed property is subject to county taxes and school district taxes (either a county school district or an independent school district). Property located inside the city limits may also be subject to city property taxes. Property assessments in Kentucky are at 100% fair cash value. Accounts receivable are taxed at 85% of face value. Special local taxing jurisdictions (fire protection districts, watershed districts and sanitation districts) levy taxes within their operating areas (usually a small portion of community or county).

The table below lists the assessed property valuation of the City as reported by the County PVA.

Description	2015	2016	2017	2018	2019
Real Estate	\$771,639,644	\$776,404,347	\$804,969,808	\$828,211,482	\$842,935,522
Tangible Property	165,618,186	164,337,628	171,416,875	171,377,128	173,581,820
Motor Vehicle	59,422,880	62,877,202	66,470,651	64,136,772	67,481,023
Watercraft	1,269,100	1,192,649	1,068,410	1,234,700	1,270,644
Totals:	\$997,650,100	1,004,811,826	1,043,925,744	1,064,960,082	1,085,269,009

The table below lists the tax collection history of the City as reported by the City.

Tax Collection History

	Fiscal Year <u>2015</u>	Fiscal Year <u>2016</u>	Fiscal Year <u>2017</u>	Fiscal Year <u>2018</u>	Fiscal Year <u>2019</u>
% Collected Real Estate					
Total Taxes Due	\$1,195,017.88	\$1,217,655.09	\$1,221,666.55	\$1,266,757.28	\$1,290,168.39
Total Taxes Paid	\$1,160,517.74	\$1,192,306.99	\$1,187,012.58	\$1,235,751.02	\$1,279,392.79
% Collected	97.1%	97.9%	97.2%	97.6%	99.16%

Ten Largest Taxpayers

The following table lists the ten largest real property taxpayers of the City.

<u>Rank</u>	<u>Taxpayer Name</u>	<u>Real Estate Valuation</u>	<u>Tangible Valuation</u>	<u>Total RE & Tangible</u>
		\$	\$	\$
1	Lake Cumberland Regional Hospital	58,249,000	20,875,161	79,124,161
2	Kroger Limited Partnership	16,250,000	10,594,781	26,844,781
3	Wal Mart	11,500,000	8,319,857	19,819,857
4	Don Franklin Automotive	12,155,550	2,290,646	14,446,196
5	Modern Distributors	0	11,745,425	11,745,425
6	Lowes Home Centers	6,000,000	5,240,451	11,240,451
7	Somerset Center Hotel	5,700,000	1,202,032	6,902,032
8	Southern Economic Development	6,500,000	0	6,500,000
9	HT Hackney Co.	600,000	5,170,749	5,770,749
10	Grand Central Holdings	5,518,000	0	5,518,000

EDUCATION

Public Schools

	Pulaski County	Science Hill Independent	Somerset Independent
Total Enrollment (2018-19)	8,103	389	1,571
Pupil-Teacher Ratio	16 - 1	16 - 1	14 - 1

Source: Kentucky Department of Education, Office of Assessment and Accountability.

Vocational Training

Vocational training is available at both the state vocational-technical schools and the area vocational education centers. The state vocational-technical schools are post-secondary institutions. The area vocational education centers are designed to supplement the curriculum of high school students. Both the state vocational-technical schools and the area vocational education centers offer evening courses to enable working adults to upgrade current job skills.

Arrangements can be made to provide training in the specific production skills required by an industrial plant. Instruction may be conducted either in the vocational school or in the industrial plant, depending upon the desired arrangement and the availability of special equipment.

Bluegrass State Skills Corporation

The Bluegrass State Skills Corporation, an independent public corporation created and funded by the Kentucky General Assembly, provides programs of skills training to meet the needs of business and industry from entry level to advanced training, and from upgrading present employees to retraining experienced workers. The Bluegrass State Skills Corporation is the primary source for skills training assistance for a new or existing company. The Corporation works in partnership with other employment and job training resources and programs, as well as Kentucky's economic development activities, to package a program customized to meet the specific needs of a company.

Institution	Location	Cumulative Enrollment 2017 - 18
Pulaski ATC	Somerset	462
Wayne County ATC	Monticello	621
Casey County ATC	Liberty	526
Rockcastle County ATC	Mount Vernon	442
Lake Cumberland ATC	Russell Springs	930
Corbin ATC	Corbin	526
Lincoln County ATC	Stanford	332
Garrard County ATC	Lancaster	346
Clinton County ATC	Albany	612
Jackson County ATC	McKee	455
Knox County ATC	Barbourville	447
Clay County ATC	Manchester	348
Trailblazer Academy	Harrodsburg	292
Marion County ATC	Lebanon	1,364
Madison County ATC	Richmond	825
Green County ATC	Greensburg	629
Jessamine Career & Tech. Center	Nicholasville	3,802
Bell County ATC	Pineville	678
Lee County ATC	Beattyville	395

Colleges and Universities

Institution	Location	Enrollment Fall 2018
University of the Cumberland	Williamsburg	10,097
Berea College	Berea	1,670
Lindsey Wilson College	Columbia	2,565
Centre College	Danville	1,450
Union College	Barbourville	1,309
Campbellsville University	Campbellsville	7,207
Eastern Kentucky University	Richmond	16,612
Asbury Theological Seminary	Wilmore	1,660
Asbury University	Wilmore	1,990
Clear Creek Baptist Bible College	Pineville	138

FINANCIAL INSTITUTIONS

Institution	Total Assets	Total Deposits
Citizens National Bank of Somerset	\$445,149,000	\$363,053,000
Cumberland Security Bank	\$215,876,000	\$184,839,000
First & Farmers National Bank	\$512,867,000	\$433,588,000

Source: *McFadden American Financial Dictionary July – December 2020 Edition.*

EXISTING INDUSTRY

Firm	Product	Total Employed
Somerset		
Armstrong Wood Products	Hardwood flooring	348
Blackboard	Software technical support center; customer service representatives; financial aid, enrollment services.	302
CCI Industrial Services	Metal fabrication	90
Coretrans	Trucking, long distance carriers	178
Eagle Hardwoods Inc	Hardwood flooring, wood pellet fuel	350
EOS CCA	First party call center	160
Gatormade Inc.	Utility trailers, gooseneck trailers, enclosed trailers, dump trailers, car trailers. Corporate HQ	135
H T Hackney	Wholesale/distribution	68
Hendrickson USA LLC	Trailer suspension systems for heavy-duty transportation industry	507
Menzner Lumber & Supply Co.	Rough mill, moulding, priming paint line and sawdust processing	175
Modern Distributors	Headquarters & distribution serves the wholesale grocery, coffee/beverage needs and foodservice sales to convenience stores.	200
New Life Industries Inc	Silk screen printing, embroidery, and transfers on sportswear. Applique and laser etching as well as pad printing	95
Performance Food Service-Somerset	Food distributor; frozen, dry, refrigerated.	132
Prairie Farms Dairy	Liquid milk, juice drinks, and 100% orange juice from concentrate	119
Somerset Recycling Service Inc	Cardboard and plastic recycling; waste reduction programs, recycling equipment, colorant	81
Super Service LLC	Truckload interstate carrier	700
Toyotetsu America Inc	Structural automotive components & stampings	938
UGN Inc	Manufacture automotive sound proofing	332

Source: Kentucky Cabinet for Economic Development (2/25/2020)

PROPERTY TAX RATES

The following table lists the tax rates for the last five (5) available years as reported by the Department of Revenue, Frankfort, Kentucky:

	-----Tax Year 2015-----			-----Tax Year 2016-----			-----Tax Year 2017-----			-----Tax Year 2018-----			-----Tax Year 2019-----		
	Real Estate	Motor Tangible	Motor Vehicle	Real Estate	Motor Tangible	Motor Vehicle	Real Estate	Motor Tangible	Motor Vehicle	Real Estate	Motor Tangible	Motor Vehicle	Real Estate	Motor Tangible	Motor Vehicle
County-															
Extension Services	\$0.0145	\$0.0162	\$0.0120	\$0.0150	\$0.0163	\$0.0120	\$0.0150	\$0.0163	\$0.0120	\$0.0155	\$0.0180	\$0.0120	\$0.0160	\$0.0187	\$0.0120
General	\$0.0510	\$0.0510	\$0.0780	\$0.0510	\$0.0510	\$0.0780	\$0.0510	\$0.0510	\$0.0780	\$0.0510	\$0.0510	\$0.0780	\$0.0510	\$0.0510	\$0.0780
Health	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300	\$0.0300
Library	\$0.0660	\$0.0769	\$0.0242	\$0.0660	\$0.0749	\$0.0242	\$0.0660	\$0.0753	\$0.0242	\$0.0660	\$0.0806	\$0.0242	\$0.0670	\$0.0821	\$0.0242
Total:	\$0.1615	\$0.1741	\$0.1442	\$0.1620	\$0.1722	\$0.1442	\$0.1620	\$0.1726	\$0.1442	\$0.1625	\$0.1796	\$0.1442	\$0.1640	\$0.1818	\$0.1442
Schools-															
Pulaski County Schools	\$0.5230	\$0.5230	\$0.5030	\$0.5410	\$0.5410	\$0.5030	\$0.5410	\$0.5410	\$0.5030	\$0.5570	\$0.5570	\$0.5030	\$0.5690	\$0.5690	\$0.5030
Science Hill Independent	\$0.6330	\$0.6330	\$0.5320	\$0.6550	\$0.6550	\$0.6330	\$0.6810	\$0.6810	\$0.6550	\$0.6740	\$0.6740	\$0.5320	\$0.6900	\$0.6900	\$0.5320
Somerset Independent	\$0.7100	\$0.7100	\$0.5680	\$0.7340	\$0.7340	\$0.5680	\$0.7570	\$0.7570	\$0.5680	\$0.7710	\$0.7710	\$0.5680	\$0.7920	\$0.7920	\$0.5680
City-															
Somerset	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300	\$0.1300

APPENDIX B

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF CITY OF SOMERSET,
KENTUCKY FOR FISCAL YEAR ENDING JUNE 30, 2019**

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CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively, comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and other post-employment benefits (OPEB) schedules on pages 3–11 and 46-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Somerset, Kentucky's basic financial statements. The combining nonmajor fund financial statements and proprietary statements of revenues and expenses – budget to actual are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, on our consideration of the City of Somerset, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Somerset, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Somerset, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
October 24, 2019

Management's Discussion and Analysis

Our discussion and analysis of the City of Somerset, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

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

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Management's Discussion and Analysis, Continued

Reporting the City as a Whole

Government-Wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net position and changes in them. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including the police, fire, emergency medical services, fuel center, water park, cemetery, public works and parks departments, as well as general administration. Property taxes, franchise fees and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's gas, water, wastewater and sanitation departments are reported here.

Management's Discussion and Analysis, Continued

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and proprietary-use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation that follows the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Management's Discussion and Analysis, Continued

THE CITY AS A WHOLE

The City's combined net position remained relatively unchanged from the prior year. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2019	2018	2019	2018	2019	2018
Current & Other Assets	\$ (.51)	\$.83	\$ 24.97	\$ 24.80	\$ 24.46	\$ 25.63
Capital Assets	31.83	33.49	82.78	85.05	114.61	118.54
Deferred Outflows	<u>10.02</u>	<u>12.39</u>	<u>2.35</u>	<u>2.75</u>	<u>12.37</u>	<u>15.14</u>
Total Assets and Deferred Outflows	<u>41.34</u>	<u>46.71</u>	<u>110.10</u>	<u>112.60</u>	<u>151.44</u>	<u>159.31</u>
Other Liabilities	2.02	2.47	2.34	2.65	4.36	5.12
Long Term Liabilities	51.90	52.28	36.88	37.70	88.78	89.98
Deferred Inflows	<u>2.46</u>	<u>1.14</u>	<u>.80</u>	<u>.50</u>	<u>3.26</u>	<u>1.64</u>
Total Liabilities/Deferred Inflows	<u>56.38</u>	<u>55.89</u>	<u>40.02</u>	<u>40.85</u>	<u>96.40</u>	<u>96.74</u>
Net investment in capital assets	16.73	17.78	55.29	56.44	72.02	74.22
Restricted	1.16	1.60	.66	.80	1.82	2.40
Unrestricted	<u>(32.93)</u>	<u>(28.56)</u>	<u>14.13</u>	<u>14.51</u>	<u>(18.80)</u>	<u>(14.05)</u>
Total Net Position	<u>\$ (15.04)</u>	<u>\$ (9.18)</u>	<u>\$ 70.08</u>	<u>\$ 71.75</u>	<u>\$ 55.04</u>	<u>\$ 62.57</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by \$4.75 million during fiscal year 2019. The major contributing factor for this decrease is due to the new GASB OPEB reporting requirement.

The net position of our business-type activities was relatively unchanged from the prior year.

Total assets and deferred outflows for Governmental Activities decreased from \$46.71 million at June 30, 2018 to 41.34 million at June 30, 2019. The major contributing factor for this decrease is due to the new GASB OPEB reporting requirement.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Charges for Services	\$ 5.69	\$ 5.82	\$ 24.09	\$ 24.74	\$ 29.78	\$ 30.56
Federal & State Grants	2.23	2.25	-	-	2.23	2.25
General Revenues						
Property Taxes	1.46	1.45	-	-	1.46	1.45
Other Taxes and License Fees	7.82	7.74	-	-	7.82	7.74
Other General Revenues	<u>1.35</u>	<u>.33</u>	<u>.14</u>	<u>.09</u>	<u>1.49</u>	<u>.42</u>
Total Revenues	<u>\$ 18.55</u>	<u>\$ 17.59</u>	<u>\$ 24.23</u>	<u>\$ 24.83</u>	<u>\$ 42.78</u>	<u>\$ 42.42</u>
Program Expenses						
General Government	4.44	4.52	-	-	4.44	4.52
Public Safety	9.26	8.30	-	-	9.26	8.30
Public Services	.23	.18	-	-	.23	.18
Streets	1.90	1.78	-	-	1.90	1.78
Parks and Recreation	1.59	1.75	-	-	1.59	1.75
Emergency Medical Services	6.50	5.91	-	-	6.50	5.91
Cemetery	.13	.11	-	-	.13	.11
Fuel Center	1.58	1.40	-	-	1.58	1.40
Waterpark	2.04	1.99	-	-	2.04	1.99
Travel & Tourism	.24	.30	-	-	.24	.30
Intergovernmental Programs	.35	.18	-	-	.35	.18
Downtown Revitalization	.14	.13	-	-	.14	.13
Debt Service – Interest	.53	.54	-	-	.53	.54
Gas	-	-	8.18	8.47	8.18	8.47
Water	-	-	5.97	5.73	5.97	5.73
Wastewater	-	-	3.43	3.65	3.43	3.65
Sanitation	-	-	<u>3.89</u>	<u>3.23</u>	<u>3.89</u>	<u>3.23</u>
Total Expense	<u>\$ 28.93</u>	<u>\$ 27.09</u>	<u>\$ 21.47</u>	<u>\$ 21.08</u>	<u>\$ 50.40</u>	<u>\$ 48.17</u>
Gain (Loss) on disposal of capital assets	(.04)	(1.49)	.13	.04	.09	(1.45)
Excess (Deficiency) before Transfer	(10.42)	(10.99)	2.89	3.79	(7.53)	(7.20)
Transfer	<u>4.56</u>	<u>5.07</u>	<u>(4.56)</u>	<u>(5.07)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	(5.86)	(5.92)	(1.67)	(1.28)	(7.53)	(7.20)
Net Position, beginning	<u>(9.18)</u>	<u>(3.26)</u>	<u>71.75</u>	<u>73.03</u>	<u>62.57</u>	<u>69.77</u>
Net Position, ending	<u>\$(15.04)</u>	<u>\$ (9.18)</u>	<u>\$ 70.08</u>	<u>\$ 71.75</u>	<u>\$ 55.04</u>	<u>\$ 62.57</u>

Management's Discussion and Analysis, Continued

The City's total revenues increased by \$.36 million. The total cost of all programs and services increased by \$2.23 million. The major contributing factor for this increase is due to the new GASB OPEB reporting requirement. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The cost of all governmental activities this year was \$28.93 million compared to \$27.09 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2019 from \$5.82 million to \$5.69 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.28 million in taxes and license fees, \$2.23 million in grants and entitlements, \$1.35 million of other revenues, and \$4.56 million in transfers.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, streets, waterpark, and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost increased by \$2.0 million and shows the financial burden that was placed on the City's taxpayers by each of these functions. The major contributing factors for this increase is due to the GASB OPEB reporting requirement and retirement and health benefit increases.

Table 3
Governmental Activities
(in Millions)

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

Management's Discussion and Analysis, Continued

Business-Type Activities

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

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

- The City continues to monitor revenue and expenses in an effort to be as efficient as possible in all activities.

THE CITY'S FUNDS

As the City completed the year, its general fund (as presented in the balance sheet on page 14) reported a fund balance of \$3.15 million.

General Fund Budgetary Highlights

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

For the General Fund, actual revenues were \$1.69 million more than the \$9.2 million budgeted, while actual expenditures were \$1.5 million less than the expected \$15.4 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

Management's Discussion and Analysis, Continued

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

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

This year's major additions were:

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

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Management's Discussion and Analysis, Continued

Debt

As of June 30, 2019, the City's Governmental Activities long term debt had decreased by \$.61 million and the Business-Type Activities long term debt decreased by \$1.13 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$1.64 million and \$.29 million respectively. We are now required to include our OPEB Liability, which decreased in the Governmental and Business-Type Activities by \$1.46 million and \$.26 million respectively. Table 5 below contains the details.

Table 5
Outstanding Debt at Year End
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Activities	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Long-Term Debt	\$ 15.10	\$ 15.71	\$ 27.55	\$ 28.68	\$ 42.65	\$ 44.39
Net Pension Liability	28.87	27.23	8.19	7.90	37.06	35.13
Net OPEB Liability	<u>8.49</u>	<u>9.95</u>	<u>2.39</u>	<u>2.65</u>	<u>10.88</u>	<u>12.60</u>
Totals	<u>\$ 52.46</u>	<u>\$ 52.89</u>	<u>\$ 38.13</u>	<u>\$ 39.23</u>	<u>\$ 90.59</u>	<u>\$ 92.12</u>

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2019

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

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2019

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

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

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

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

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

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

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

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

	<u>General</u>	<u>EMS</u>	<u>Waterpark</u>	<u>Fuel Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 1,460,414	\$ -	\$ -	\$ -	\$ 214,384	\$ 1,674,798
Licenses and permits	7,607,151	-	-	-	-	7,607,151
Fines and forfeits	85,485	-	-	-	-	85,485
Charges for services	-	2,901,406	1,100,942	1,492,686	199,816	5,694,850
Intergovernmental	619,134	1,362,974	-	-	252,777	2,234,885
Interest income	56,211	1,147	706	307	2,982	61,353
Other revenues	<u>1,057,163</u>	<u>41,911</u>	<u>31,049</u>	<u>-</u>	<u>69,650</u>	<u>1,199,773</u>
Total revenues	<u>10,885,558</u>	<u>4,307,438</u>	<u>1,132,697</u>	<u>1,492,993</u>	<u>739,609</u>	<u>18,558,295</u>
EXPENDITURES						
Current:						
General administration	3,695,953	-	-	-	-	3,695,953
Public safety	7,145,043	-	-	-	-	7,145,043
Public services	228,379	-	-	-	-	228,379
Streets	1,142,745	-	-	-	114,550	1,257,295
Parks and recreation	-	-	-	-	1,302,904	1,302,904
Emergency medical services	-	5,042,133	-	-	-	5,042,133
Cemetery	-	-	-	-	115,592	115,592
Waterpark	-	-	1,317,690	-	-	1,317,690
Fuel center	-	-	-	1,547,229	-	1,547,229
Travel and tourism	-	-	-	-	243,074	243,074
Downtown revitalization	143,875	-	-	-	-	143,875
Intergovernmental programs	353,064	-	-	-	-	353,064
Capital outlay	201,874	26,665	-	-	309,387	537,926
Debt service	<u>1,001,252</u>	<u>27,114</u>	<u>108,893</u>	<u>-</u>	<u>-</u>	<u>1,137,259</u>
Total expenditures	<u>13,912,185</u>	<u>5,095,912</u>	<u>1,426,583</u>	<u>1,547,229</u>	<u>2,085,507</u>	<u>24,067,416</u>
Excess (deficiency) of revenues over expenditures	<u>(3,026,627)</u>	<u>(788,474)</u>	<u>(293,886)</u>	<u>(54,236)</u>	<u>(1,345,898)</u>	<u>(5,509,121)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of assets	8,705	505	-	-	-	9,210
Transfers in (out)	<u>2,894,112</u>	<u>(25,000)</u>	<u>371,343</u>	<u>-</u>	<u>1,321,500</u>	<u>4,561,955</u>
Total other financing sources and uses	<u>2,902,817</u>	<u>(24,495)</u>	<u>371,343</u>	<u>-</u>	<u>1,321,500</u>	<u>4,571,165</u>
Net change in fund balances	(123,810)	(812,969)	77,457	(54,236)	(24,398)	(937,956)
Fund balances-beginning	<u>3,269,442</u>	<u>(346,503)</u>	<u>(4,147,204)</u>	<u>160,885</u>	<u>213,849</u>	<u>(849,531)</u>
Fund balances-ending	<u>\$ 3,145,632</u>	<u>\$ (1,159,472)</u>	<u>\$ (4,069,747)</u>	<u>\$ 106,649</u>	<u>\$ 189,451</u>	<u>\$ (1,787,487)</u>

Reconciliation to government-wide change in net position:

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

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

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

June 30, 2019

	Business-type Activities				Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 2,251,533	\$ 2,994,164	\$ 840,552	\$ 1,303,059	\$ 7,389,308
Certificates of deposit	-	1,259,830	3,300,133	600,079	5,160,042
Receivables, net	626,180	794,670	334,512	447,689	2,203,051
Note receivable - current	251,628	-	-	-	251,628
Accrued interest receivable	341	628	4,261	548	5,778
Inventories	370,736	349,434	57,566	-	777,736
Prepaid expenses	1,086	1,259	993	9,983	13,321
Due from other funds	3,018,659	5,183,805	226,137	1,676,860	10,105,461
Total current assets	<u>6,520,163</u>	<u>10,583,790</u>	<u>4,764,154</u>	<u>4,038,218</u>	<u>25,906,325</u>
Noncurrent assets					
Restricted cash and cash equivalents	-	553,583	105,000	-	658,583
Note receivable - long-term	21,369	-	-	-	21,369
Excess cost over market value of assets acquired, net	-	60,214	-	-	60,214
Capital assets					
Nondepreciable capital assets	269,284	663,710	282,325	-	1,215,319
Depreciable capital assets	26,966,780	69,220,265	45,900,029	3,073,019	145,160,093
Less accumulated depreciation	(19,994,887)	(21,614,041)	(20,290,780)	(1,696,279)	(63,595,987)
Total noncurrent assets	<u>7,262,546</u>	<u>48,883,731</u>	<u>25,996,574</u>	<u>1,376,740</u>	<u>83,519,591</u>
Total assets	<u>13,782,709</u>	<u>59,467,521</u>	<u>30,760,728</u>	<u>5,414,958</u>	<u>109,425,916</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pension	457,275	497,602	340,346	370,611	1,665,834
Deferred outflows - OPEB	189,109	205,787	140,752	153,269	688,917
Total deferred outflows of resources	<u>646,384</u>	<u>703,389</u>	<u>481,098</u>	<u>523,880</u>	<u>2,354,751</u>
Total assets and deferred outflows of resources	<u>\$ 14,429,093</u>	<u>\$ 60,170,910</u>	<u>\$ 31,241,826</u>	<u>\$ 5,938,838</u>	<u>\$ 111,780,667</u>
LIABILITIES					
Current liabilities					
Accounts payable	\$ 293,273	\$ 150,092	\$ 45,914	\$ 140,265	\$ 629,544
Due to other funds	82,667	101,886	1,425,343	70,542	1,680,438
Accrued interest payable	4,476	136,025	14,570	1,033	156,104
Other current liabilities	101,353	96,457	52,928	50,233	300,971
Current portion of long-term debt	52,737	516,076	565,774	119,537	1,254,124
Total current liabilities	<u>534,506</u>	<u>1,000,536</u>	<u>2,104,529</u>	<u>381,610</u>	<u>4,021,181</u>
Noncurrent liabilities					
Notes payable	52,201	3,850,754	1,861,189	509,443	6,273,587
Bonds payable	676,335	12,529,000	6,817,715	-	20,023,050
Net pension liability	2,248,996	2,447,341	1,673,909	1,822,762	8,193,008
Net OPEB liability	655,651	713,474	487,995	531,390	2,388,510
Total noncurrent liabilities	<u>3,633,183</u>	<u>19,540,569</u>	<u>10,840,808</u>	<u>2,863,595</u>	<u>36,878,155</u>
Total liabilities	<u>4,167,689</u>	<u>20,541,105</u>	<u>12,945,337</u>	<u>3,245,205</u>	<u>40,899,336</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension	87,742	95,479	65,305	71,112	319,638
Deferred inflows - OPEB	133,299	145,055	99,213	108,037	485,604
Total deferred inflows of resources	<u>221,041</u>	<u>240,534</u>	<u>164,518</u>	<u>179,149</u>	<u>805,242</u>
NET POSITION					
Net investment in capital assets	6,459,904	31,434,318	16,646,896	747,760	55,288,878
Restricted for debt service	-	553,583	105,000	-	658,583
Unrestricted	3,580,459	7,401,370	1,380,075	1,766,724	14,128,628
Total net position	<u>10,040,363</u>	<u>39,389,271</u>	<u>18,131,971</u>	<u>2,514,484</u>	<u>70,076,089</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 14,429,093</u>	<u>\$ 60,170,910</u>	<u>\$ 31,241,826</u>	<u>\$ 5,938,838</u>	<u>\$ 111,780,667</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, 2019

	Business-type Activities				Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	
Operating revenues					
Sales to customers	\$ 8,329,380	\$ 7,315,528	\$ 2,688,181	\$ 3,931,723	\$ 22,264,812
Transportation/surcharges	978,396	120,400	26,252	-	1,125,048
Other operating revenues	358,624	139,149	137,980	61,689	697,442
Total operating revenues	<u>9,666,400</u>	<u>7,575,077</u>	<u>2,852,413</u>	<u>3,993,412</u>	<u>24,087,302</u>
Operating expenses					
Gas purchases, net of refunds	4,083,321	-	-	-	4,083,321
Operating expenses	2,944,020	3,641,233	1,733,448	3,467,886	11,786,587
Maintenance	656,213	417,030	430,530	232,713	1,736,486
Depreciation	465,984	1,463,532	1,080,523	177,320	3,187,359
Amortization	-	9,022	-	-	9,022
Total operating expenses	<u>8,149,538</u>	<u>5,530,817</u>	<u>3,244,501</u>	<u>3,877,919</u>	<u>20,802,775</u>
Operating income (loss)	<u>1,516,862</u>	<u>2,044,260</u>	<u>(392,088)</u>	<u>115,493</u>	<u>3,284,527</u>
Nonoperating revenues (expenses)					
Gain (loss) on disposal of capital assets	4,322	(4,097)	(2,244)	134,479	132,460
Interest and investment revenue	14,759	31,674	74,948	18,026	139,407
Interest expense	(28,546)	(440,138)	(185,178)	(9,241)	(663,103)
Total nonoperating revenues (expenses)	<u>(9,465)</u>	<u>(412,561)</u>	<u>(112,474)</u>	<u>143,264</u>	<u>(391,236)</u>
Income (loss) before transfers	1,507,397	1,631,699	(504,562)	258,757	2,893,291
Transfers in (out)	<u>(2,700,000)</u>	<u>(1,490,609)</u>	<u>-</u>	<u>(371,343)</u>	<u>(4,561,952)</u>
Change in net position	<u>(1,192,603)</u>	<u>141,090</u>	<u>(504,562)</u>	<u>(112,586)</u>	<u>(1,668,661)</u>
Total net position-beginning	<u>11,232,966</u>	<u>39,248,181</u>	<u>18,636,533</u>	<u>2,627,070</u>	<u>71,744,750</u>
TOTAL NET POSITION-ENDING	<u>\$ 10,040,363</u>	<u>\$ 39,389,271</u>	<u>\$ 18,131,971</u>	<u>\$ 2,514,484</u>	<u>\$ 70,076,089</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2019

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The accompanying financial statements of the City present the City's primary government over which the Mayor and Council exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, was determined on the basis of the City's ability to significantly influence operation, select the governing body, participate in fiscal management and the scope of public service. All related entities were evaluated using these criteria and no related entities require inclusion in the general purpose financial statements. The Pulaski County Industrial Foundation was evaluated and excluded because its operations are primarily funded by a county-wide occupational tax. The Lake Cumberland Area Drug Task Force was evaluated and excluded because the board which oversees the task force contains one member from each participating government and the task force does not provide services primarily to the City.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, insurance premium, occupational, and franchise fees, and grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City allocates indirect expenses primarily comprised of central governmental services to operating functions and programs benefiting from those services. Central services include overall City management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement contracting and oversight, investing and cash management, personnel services and other central administrative services. Allocations are charged equally among the effected departments. These charges are reported in the statement of activities as part of revenues and expenses. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include public safety, public services, streets, parks and recreation and sanitation.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

EMS Fund - A special revenue fund used to account for the activities of the Somerset- Pulaski County Emergency Medical Services. The City of Somerset Council has the responsibility of approving all expenditures by the Somerset-Pulaski County Emergency Medical Service.

Waterpark Fund - A special revenue fund used to account for the waterpark activities provided to residents and visitors of the area, the operation of which is financed primarily by the general government.

Fuel Center Fund - A special revenue fund used to account for the activities of the fuel center provided to city departments, various organizations and the public.

Proprietary funds are used to account for the ongoing organizations and activities of the City, which are similar to those found in private business enterprises. The measurement focus is upon determination of net income, financial position and changes in cash flow.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major proprietary funds:

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

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's gas, water, wastewater and sanitation funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenue tap fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed - amounts that can be used only for specific purposes determined by a formal action of the City Council. The council is the highest level of decision-making authority for the City of Somerset. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the council.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance (continued)

Assigned - for all governmental funds, other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts.

Unassigned - for the General Fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

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

It is the policy of the City to spend restricted funds first when both restricted and unrestricted funds are available. Once restricted funds are spent, the City will use committed funds first, assigned funds second, and unassigned funds last.

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

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

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

E. Pensions

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Postemployment Benefits Other Than Pensions (OPEB)

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

G. Assets, Liabilities and Net Position or Fund Balance

Deposits and Investments

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary funds consider all highly liquid investments (both restricted and unrestricted) with a maturity of 90 days or less when purchased to be cash equivalents.

Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Inventories in the general and proprietary funds consist of expendable supplies held for consumption and inventory for concessions and retail sale in the waterpark stated on a first-in, first-out method. Inventory in the fuel center fund consists of fuel held for sale. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Inventories of the special revenue funds, other than concessions in the parks and recreation department, are recorded as expenditures when purchased rather than when consumed. Concessions inventory of the parks and recreation department are recorded at cost on the first-in, first-out method.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounts Receivable

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

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

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

Capital Assets and Depreciation

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

The City allows employees to accumulate unused sick leave to a maximum of 120 days. Earned vacation time is generally required to be used within one year of accrual. Upon termination, employees are given the option of taking credit towards their retirement for accumulated sick days or taking payment for fifty percent of accumulated days. Also, at termination, any accumulated vacation not taken will be paid to the employee. The City's accrued liabilities for future compensated absences are recorded to the extent the future leaves (1) relate to rights attributable to employee services already rendered, (2) relate to rights that vest or accumulate, (3) where payment is probable and (4) where amounts can be reasonably estimated. The amount of vacation liability is included in the financial statements in the accrued liabilities total. The amount of sick leave due is not practicably determinable.

H. Budgeting

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

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

I. Other Accounting Policies

Interfund Transactions

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

Use of Estimates

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

J. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through October 24, 2019, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2019, have not been evaluated by the City.

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

2. CASH AND INVESTMENTS

Custodial Credit Risks – Deposits

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

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

Carrying amount	\$ 18,366,211
Bank balance	\$ 19,203,170
FDIC Insurance	\$ 1,659,543
Bank Deposit Guaranty Bond	\$ 2,342,035
Uninsured and collateral held by the pledging financial institution's trust department or agent and pledged to the City, in the depositor-government's name	\$ 15,201,592
Uninsured and uncollateralized	\$ -

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts Receivable

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

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

Note Receivable

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

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

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

4. INTERFUND RECEIVABLES AND PAYABLES

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

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

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

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

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

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

5. CAPITAL ASSETS

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

	June 30, 2018	Additions/ Transfers	Disposals/ Transfers	June 30, 2019
Governmental Activities				
Capital assets not depreciated:				
Land	\$ 2,177,838	\$ 6,791	\$ -	\$ 2,184,629
Right of way and easements	11,068	-	-	11,068
Construction in progress	<u>409,133</u>	<u>24,314</u>	<u>16,259</u>	<u>417,188</u>
Totals	<u>2,598,039</u>	<u>31,105</u>	<u>16,259</u>	<u>2,612,885</u>
Capital assets that are depreciated:				
Infrastructure	36,149,685	251,897	-	36,401,582
Building and improvements	18,263,568	-	-	18,263,568
Vehicles	5,395,108	137,183	393,370	5,138,921
Equipment	2,430,703	117,741	-	2,548,444
Office equipment	1,009,686	-	-	1,009,686
Land improvements	<u>1,264,190</u>	<u>-</u>	<u>-</u>	<u>1,264,190</u>
Totals	<u>64,512,940</u>	<u>506,821</u>	<u>393,370</u>	<u>64,626,391</u>
Total capital assets	<u>67,110,979</u>	<u>537,926</u>	<u>409,629</u>	<u>67,239,276</u>
Accumulated depreciation:				
Infrastructure	22,035,204	1,082,645	-	23,117,849
Buildings and improvements	3,793,903	516,890	-	4,310,793
Vehicles	3,833,364	324,656	363,470	3,794,550
Equipment	1,993,305	159,398	-	2,152,703
Office equipment	990,941	9,458	-	1,000,399
Land improvements	<u>972,943</u>	<u>56,635</u>	<u>-</u>	<u>1,029,578</u>
Totals	<u>33,619,660</u>	<u>2,149,682</u>	<u>363,470</u>	<u>35,405,872</u>
Capital Assets, Net	<u>\$ 33,491,319</u>	<u>\$ (1,611,756)</u>	<u>\$ (46,159)</u>	<u>\$ 31,833,404</u>

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

5. CAPITAL ASSETS (CONTINUED)

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

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

Primary Government

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Waterpark	\$ 687,285	Water	\$ 1,463,532
Streets	565,896	Wastewater	1,080,523
Public Safety	190,827	Gas	465,984
General Government	348,123	Sanitation	<u>177,320</u>
Emergency Medical Services	145,834		
Parks and Recreation	179,810		<u>\$ 3,187,359</u>
Fuel Center	28,497		
Cemetery	2,784		
Travel & Tourism	<u>626</u>		
	<u>\$ 2,149,682</u>		

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

6. LONG-TERM DEBT

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

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

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

6. LONG-TERM DEBT (CONTINUED)

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

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

6. LONG-TERM DEBT (CONTINUED)

Description	June 30, 2018	Issued	Retired	June 30, 2019	Due within One year
<u>Business-type Activities, continued</u>					
Wastewater Department					
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	\$ 1,260,175	\$ -	\$ 36,750	\$ 1,223,425	\$ 74,934
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	6,446,050	-	386,475	6,059,575	390,351
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	308,902	-	17,283	291,619	17,629
Note payable to local bank with interest at 3.25% and adjusting after 60 months to a Prime Rate, maturing in fiscal year 2035	<u>1,750,427</u>	<u>-</u>	<u>80,368</u>	<u>1,670,059</u>	<u>82,860</u>
Total Wastewater Department	<u>\$ 9,765,554</u>	<u>\$ -</u>	<u>\$ 520,876</u>	<u>\$ 9,244,678</u>	<u>\$ 565,774</u>
Sanitation Department					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	\$ 105,203	\$ -	\$ 37,263	\$ 67,940	\$ 38,389
Lease agreement with local bank with interest at 3.5% maturing in fiscal year 2023	241,694	-	51,504	190,190	53,335
Note payable to local bank with interest at 3.85%, maturing in fiscal year 2024	-	147,722	13,519	134,203	27,813
Lease agreement with local bank with interest at 4.4%, maturing in fiscal year 2021	<u>-</u>	<u>236,647</u>	<u>-</u>	<u>236,647</u>	<u>-</u>
Total Sanitation Department	<u>346,897</u>	<u>384,369</u>	<u>102,286</u>	<u>628,980</u>	<u>119,537</u>
Net pension liability	<u>7,899,063</u>	<u>293,945</u>	<u>-</u>	<u>8,193,008</u>	<u>-</u>
Net OPEB liability	<u>2,645,289</u>	<u>-</u>	<u>256,779</u>	<u>2,388,510</u>	<u>-</u>
Total Business-type activities	<u>\$ 39,222,496</u>	<u>\$ 715,589</u>	<u>\$ 1,805,806</u>	<u>\$ 38,132,279</u>	<u>\$ 1,254,124</u>

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

6. LONG-TERM DEBT (CONTINUED)

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

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

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

The City entered into a capital lease

The Series 2011 Bond issue is dated November 1, 2011 in the amount of \$8,810,000 and carries a interest rate of 2.10 to 4.25%. The issue was intended to benefit the general fund, waterpark, wastewater department, and gas department. The issue is included on the statement of net position under long-term debt as follows:

General	\$ 4,561,583
Waterpark	1,569,954
Gas department	720,536
Wastewater department	<u>1,223,425</u>
 Total	 <u>\$ 8,075,498</u>

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

The annual debt service requirements, to maturity, for all long-term debt (excluding the net pension liability and the net OPEB liability are as follows):

Governmental Activities

Year ended	Principal	Interest	Total
2020	\$ 568,458	\$ 520,542	\$ 1,089,000
2021	586,658	501,986	1,088,644
2022	605,429	482,066	1,087,495
2023	594,638	461,076	1,055,714
2024	582,518	440,152	1,022,670
2025-2029	3,267,648	1,851,664	5,119,312
2030-2034	2,727,274	1,198,757	3,926,031
2035-2039	1,208,500	907,265	2,115,765
2040-2044	1,438,500	692,700	2,131,200
2045-2049	1,686,517	437,721	2,124,238
2050-2054	<u>1,837,001</u>	<u>153,043</u>	<u>1,990,044</u>
	<u>\$ 15,103,141</u>	<u>\$ 7,646,972</u>	<u>\$ 22,750,113</u>

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

6. LONG-TERM DEBT (CONTINUED)

Business-type Activities

Year ended	Principal	Interest	Total
2020	\$ 1,254,124	\$ 653,779	\$ 1,907,903
2021	1,509,254	617,649	2,126,903
2022	1,227,186	586,380	1,813,566
2023	1,172,247	593,538	1,765,785
2024	1,154,519	532,370	1,686,889
2025-2029	6,088,566	2,244,475	8,333,041
2030-2034	6,273,089	1,456,677	7,729,766
2035-2039	2,637,276	830,622	3,467,898
2040-2044	2,178,500	571,997	2,750,497
2045-2049	2,450,500	329,237	2,779,737
2050-2052	<u>1,605,500</u>	<u>68,616</u>	<u>1,674,116</u>
	<u>\$ 27,550,761</u>	<u>\$ 8,485,340</u>	<u>\$ 36,036,101</u>

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2019 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2019, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

7. RETIREMENT PLAN

CERS

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

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

Contributions – For the year ended June 30, 2019, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

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

7. RETIREMENT PLAN (CONTINUED)

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee's wages for non-hazardous job classifications and 35.34% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 8. Plan members contributed 16.22% and 24.87% to the pension trust for non-hazardous and hazardous job classifications, respectively. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications. Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2019, the City contributed \$1,352,005, or 100% of the required contribution for non-hazardous job classifications, which was allocated \$1,020,927 to the CERS pension fund and \$331,078 to the CERS insurance fund. The City contributed \$1,812,412, or 100% of the required contribution for hazardous job classifications, which was allocated \$1,275,458 to the CERS pension fund and \$536,954 to the CERS insurance fund.

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

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

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

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

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

7. RETIREMENT PLAN (CONTINUED)

Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2018 was as follows:

Non-hazardous	Hazardous
.251%	.904%

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

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

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

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

7. RETIREMENT PLAN (CONTINUED)

The \$2,268,290 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

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

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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

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

7. RETIREMENT PLAN (CONTINUED)

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

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

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net pension liability	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 19,155,017	5.25%	\$ 27,379,326
Current discount rate	6.25%	\$ 15,215,713	6.25%	\$ 21,852,161
1% increase	7.25%	\$ 11,915,281	7.25%	\$ 17,282,923

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

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

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications and 10.47% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

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

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

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

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

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

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

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

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

The City's proportionate share at June 30, 2018 was as follows:

Non-hazardous	Hazardous
.251%	.904%

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

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

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

The \$904,828 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. This includes adjustments of \$71,559 for the nonhazardous implicit subsidy and (\$25,651) for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,

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

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

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

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

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

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

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

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

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

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

Discount Rate – The discount rate used to measure the total net OPEB liability was 5.85% and 5.97% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

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

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

	Non-hazardous			Hazardous		
	Discount rate	City's proportionate share of net OPEB liability		Discount rate	City's proportionate share of net OPEB liability	
1% decrease	4.85%	\$ 5,761,442		4.97%	\$ 8,955,204	
Current discount rate	5.85%	\$ 4,435,842		5.97%	\$ 6,442,359	
1% increase	6.85%	\$ 3,306,665		6.97%	\$ 4,430,771	

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	Non-hazardous			Hazardous		
		City's proportionate share of net OPEB liability			City's proportionate share of net OPEB liability	
1% decrease		\$ 3,302,525			\$ 4,387,562	
Current trend rate		\$ 4,435,842			\$ 6,442,359	
1% increase		\$ 5,771,687			\$ 8,987,324	

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

9. PROPERTY TAX CALENDAR

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

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

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

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

10. TRANSFER OF FUNDS

The following transfers were made during the year:

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

11. OPERATING LEASES

The City entered into an agreement with Enterprise Fleet Management to lease the majority of its vehicles. The term of each leased vehicle varies from forty-eight to sixty months and the ownership remains with Enterprise Fleet Management. The City is responsible for all maintenance and for providing insurance on the vehicles. The City has determined the leases do not meet the definition of capital leases and is expensing the payments as they come due. Future lease obligations as of June 30, 2019 are summarized below:

Governmental Activities

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

Business-type Activities

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

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

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

12. CONDUIT DEBT

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City, payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2019 is not readily available.

13. LEGAL CONTINGENCIES

The City is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. City officials and legal counsel believe these actions are without merit, adequately covered by insurance or that the ultimate liability, if any, will not materially affect the City's financial position.

14. RISK MANAGEMENT

The City is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, employee injury, fiduciary responsibility, etc. Each of these risks areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated which include worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

Notes:

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

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

The City's covered payroll reported above is payroll for the City's corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

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

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

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

Notes:

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

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

The City's covered payroll reported above is payroll for the City's corresponding measurement date of the net pension liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

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

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

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

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net pension liability.

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

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

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

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

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

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

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

Notes:

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

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

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

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

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

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

Notes:

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

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

The City's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the City's fiscal year payroll, reported on the schedule of contributions.

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

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

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

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

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

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

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

Notes:

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

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS insurance fund.

The City's covered payroll reported above is payroll for the City's corresponding fiscal year and differs from the covered payroll reported on the schedule of proportionate share of the net OPEB liability.

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

SUPPLEMENTARY INFORMATION

**CITY OF SOMERSET, KENTUCKY
COMBINING BALANCE SHEET
ALL NONMAJOR FUNDS
June 30, 2019**

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

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

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Travel & Tourism Fund	2019 Total
REVENUES						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 214,384	\$ 214,384
Charges for services	-	175,800	-	24,016	-	199,816
Intergovernmental revenues	221,660	-	31,117	-	-	252,777
Interest income	1,529	804	66	583	-	2,982
Other revenues	-	68,146	-	1,106	398	69,650
	<u>223,189</u>	<u>244,750</u>	<u>31,183</u>	<u>25,705</u>	<u>214,782</u>	<u>739,609</u>
Total revenues						
EXPENDITURES						
Current						
Streets	114,550	-	-	-	-	114,550
Parks and recreation	-	1,302,904	-	-	-	1,302,904
Cemetery	-	-	-	115,592	-	115,592
Travel and tourism	-	-	-	-	243,074	243,074
Capital outlay	251,897	23,091	-	6,791	27,608	309,387
Debt Service	-	-	-	-	-	-
	<u>366,447</u>	<u>1,325,995</u>	<u>-</u>	<u>122,383</u>	<u>270,682</u>	<u>2,085,507</u>
Total expenditures						
Excess revenues over (under) expenditures before other sources (uses)	(143,258)	(1,081,245)	31,183	(96,678)	(55,900)	(1,345,898)
Other financing sources						
Proceeds from sale of assets	-	-	-	-	-	-
Transfers from (to) other funds	-	1,333,500	-	-	(12,000)	1,321,500
	<u>-</u>	<u>1,333,500</u>	<u>-</u>	<u>-</u>	<u>(12,000)</u>	<u>1,321,500</u>
Total other financing sources						
Excess revenues and other sources over (under) expenditures	(143,258)	252,255	31,183	(96,678)	(67,900)	(24,398)
Fund balances, beginning of year	<u>335,571</u>	<u>(342,939)</u>	<u>(119,733)</u>	<u>188,692</u>	<u>152,258</u>	<u>213,849</u>
FUND BALANCES - END OF YEAR	<u>\$ 192,313</u>	<u>\$ (90,684)</u>	<u>\$ (88,550)</u>	<u>\$ 92,014</u>	<u>\$ 84,358</u>	<u>\$ 189,451</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

To the Mayor and City Council
City of Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Somerset, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
October 24, 2019

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APPENDIX C

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

STATEMENT OF INDEBTEDNESS

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(e)	Obligations issued to pay costs of public projects to the extent they are issued in anticipation of the receipt of, and are payable as to principal from, federal or state grants within that fiscal year.....	\$-0-
(f)	Leases entered into under KRS 65.940 to 65.956 after July 15, 1996 which are not tax-supported leases.....	\$-0-
(g)	Bonds issued in the case of an emergency, when the public health or safety should so require	\$-0-
(h)	Bonds issued to fund a floating indebtedness	\$-0-
	TOTAL EXEMPT OBLIGATIONS.....	\$

5. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (3 minus 4) is \$*

6. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 as computed in 5 above, does not exceed 5% of the assessed valuation of all the taxable property in the Issuer.

7. The current tax rate of the Issuer, for other than school purposes, upon the value of its taxable property is \$.246 per \$100 for real property and \$.368 per \$100 for personal property, which do not exceed the maximum permissible tax rates for the Issuer as set forth in Section 157 of the Kentucky Constitution.

8. The issuance of the bonds, notes or other obligations set forth in 3 hereof will not cause the tax rate set forth in 7 hereof to increase in an amount which would exceed the maximum permissible tax rate for the Issuer as set forth in Section 157 of the Kentucky Constitution.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of July, 2020.

By: _____
Chief Financial Officer

* 10% for cities having a population of fifteen thousand or more;
5% for cities having a population of less than fifteen thousand but not less than three thousand; and
3% for cities having a population of less than three thousand.

APPENDIX D

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

**ESTIMATED DEBT SERVICE REQUIREMENTS ON THE BONDS AND TOTAL GENERAL
OBLIGATION DEBT SERVICE REQUIREMENTS OF THE CITY**

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APPENDIX E

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

FORM OF LEGAL APPROVING OPINION OF BOND COUNSEL

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The form of the legal approving opinion of Dinsmore & Shohl LLP, bond counsel, is set forth below. The actual opinion will be delivered on the date of delivery of the bonds referred to therein and may vary from the form set forth to reflect circumstances both factual and legal at the time of such delivery. Recirculation of the Final Official Statement shall create no implication that Dinsmore & Shohl LLP has reviewed any of the matters set forth in such opinion subsequent to the date of such opinion.

Gentlemen:

We have examined the transcript submitted relating to the issue of *\$8,960,000 General Obligation Refunding Bonds, Series 2020 (the “Bonds”) of the City of Somerset, Kentucky (the “Issuer”), dated August __, 2020, numbered R-1 upward and of the denomination of \$5,000 and any integral multiple thereof. The Bonds mature, bear interest, and are subject to mandatory and optional redemption upon the terms set forth therein. We have also examined a specimen Bond.

Based on this examination, we are of the opinion, based upon laws, regulations, rulings and decisions in effect on the date hereof, that:

1. The Bonds constitute valid obligations of the Issuer in accordance with their terms, which unless paid from other sources, are payable from taxes to be levied by the Issuer without limitation as to rate.

2. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal or state tax consequences of purchasing, holding or disposing of the Bonds.

3. The interest on the Bonds is not subject to taxation by the Commonwealth of Kentucky, and the Bonds are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

The Issuer has designated the Bonds as “qualified tax-exempt obligations” with respect to investments by certain financial institutions under Section 265 of the Code.

In giving this opinion, we have relied upon covenants and certifications of facts, estimates and expectations made by officials of the Issuer and others contained in the transcript; which we have not independently verified. It is to be understood that the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors’ rights, and to the exercise of judicial discretion.

Very truly yours,