

PRELIMINARY OFFICIAL STATEMENT DATED MAY 18, 2021

BOOK ENTRY ONLY
New Issue – Not Bank Qualified

RATINGS: Moody’s “A2”
See “Rating” herein

In the opinion of Bond Counsel, under existing law (i) interest on the Bonds will be excludible from gross income of the holders thereof for purposes of federal income taxation, (ii) interest on the Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax, and (iii) interest on the Bonds is exempt from income taxation by the Commonwealth of Kentucky, all subject to the qualifications described herein under the heading “LEGAL MATTERS - Tax Treatment.” The Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky.

\$13,030,000*
CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021

Dated: Date of Initial Delivery

Due: June 1, as shown below

Interest on the captioned bonds (herein the “Bonds”) will be payable from the dated date, on June 1 and December 1, commencing December 1, 2021, and the Bonds mature on each June 1, as shown , as shown below:

<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>	<u>Cusip 651894</u>	<u>Year</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>	<u>Cusip 651894</u>
2022	\$800,000				2032	\$665,000			
2023	810,000				2033	675,000			
2024	825,000				2034	695,000			
2025	825,000				2035	655,000			
2026	830,000				2036	595,000			
2027	840,000				2037	600,000			
2028	695,000				2038	335,000			
2029	700,000				2039	335,000			
2030	715,000				2040	345,000			
2031	730,000				2041	360,000			

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 Bonds to owners of book entry interests. DTC will receive all payments of principal and interest with respect to the Bonds from U.S. Bank National Association, Louisville, Kentucky, as Paying Agent and Bond Registrar. DTC is required by its rules and procedures to remit such payments to participants in DTC for subsequent disbursement to the owners of book entry interests. So long as DTC or its nominee is the registered owner of the Bonds, references herein to the Bondholders or registered owners (other than under the captions “LEGAL MATTERS - Tax Treatment” and “CONTINUING DISCLOSURE”) shall mean DTC or its nominee, and not the owners of book entry interests in the Bonds. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof.

The Bonds maturing on and after June 1, 2030 are subject to optional redemption on any date on and after June 1, 2029 in whole or in part, in such order of maturity as may be selected by the Issuer and by lot within a maturity, at a redemption price equal to the principal amount of Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

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, Louisville, 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 June 17, 2021.

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.



Dated: May ___, 2021

*Indicates preliminary; subject to change, throughout.

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 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

CITY OF SOMERSET, KENTUCKY

Mayor
Alan Keck

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

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Chief of Staff
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Mike Broyles

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MUNICIPAL ADVISOR
RSA Advisors, LLC
Lexington, Kentucky

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

TABLE OF CONTENTS

REGARDING THIS OFFICIAL STATEMENT	1
INTRODUCTION	1
The Issuer	1
Sources of Payment for the Bonds.....	1
Purpose of the Bonds.....	1
Description of the Bonds	1
Book Entry.....	2
Payment of Bonds and Paying Agent and Registrar.....	2
Interest	2
Tax Exemption	2
Parties to the Issuance of the Bonds	3
Authority for Issuance	3
Offering and Delivery of the Bonds	3
Disclosure Information	3
Additional Information	3
DESCRIPTION OF THE BONDS	3
Redemption Provisions.....	4
Security and Source of Payment for Bonds.....	5
BOOK ENTRY	6
DESCRIPTION OF THE PROJECT AND PLAN OF FINANCE	6
SOURCES AND USES OF FUNDS	6
INVESTMENT CONSIDERATIONS	7
Impact of the COVID-19 Pandemic	9
PROFILE OF THE CITY AND SURROUNDING AREA.....	10
CITY GOVERNMENT	10
Organization and Major Offices	10
Elected and Appointed Officials.....	11
Financial Matters	11
Financial Management	12
Financial Reports and Examinations of Accounts.....	12
Budgeting and Appropriations Procedures.....	12
Investment Policies.....	12
Debt Limitation.....	14
Tax Limitation	15
Bond Anticipation Notes	15
Future Borrowings of the City.....	15
LEGAL MATTERS.....	15
General Information	15
Transcript and Closing Certificates	16
Litigation	16
Tax Exemption	16
General	16
RATING	18
CONTINUING DISCLOSURE.....	19
UNDERWRITING	21
MUNICIPAL ADVISOR.....	Error! Bookmark not defined.
MISCELLANEOUS	21

APPENDICES:

APPENDIX A - Estimated Debt Service Requirements for the Bonds

APPENDIX B - Demographic, Economic and Financial Data

APPENDIX C - Statement of Indebtedness

APPENDIX D - Audited General Purpose Financial Statements of the City of Somerset, Kentucky for the Fiscal Year Ending June 30, 2020

APPENDIX E - Form of Legal Approving Opinion of Bond Counsel

APPENDIX F - Book-Entry Only System

APPENDIX G - Official Terms and Conditions

APPENDIX H - Official Bid Form

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.

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 \$13,030,000* aggregate principal amount of General Obligation Bonds, Series 2021 (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 Commonwealth of Kentucky. The City is located in Pulaski County in Southern Kentucky.

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. (See “DESCRIPTION OF THE BONDS - Security and Source of Payment for the Bonds,” herein).

Purpose of the Bonds

The bonds are being issued for the purpose of (a) financing a portion of the costs of the acquisition, construction, equipping, and installation of upgrades to the Virginia Theater for the benefit of the City; (b) financing all or a portion of the costs of the acquisition, construction, equipping, and installation of various municipal-owned capital projects for the benefit of the City; (c) financing all a portion of the costs of a new fire truck; (d) refinancing an obligation of the City owed to Monticello Bank, the proceeds of which were used to finance the purchase of real estate for use by the City; (e) refinancing an obligation of the City owed to Citizens National Bank, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities; and (f) refinancing all or a portion of the City’s Kentucky Rural Water Fund Notes, Series 2011C, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities (See “DESCRIPTION OF THE PROJECT AND PLAN OF FINANCE” herein.)

Description of the Bonds

General. 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 June 1, 2030 and thereafter are subject to optional redemption prior to maturity, commencing June 1, 2029, see “DESCRIPTION OF THE BONDS – Redemption Provisions – Optional Redemption,” herein).

The Bonds maturing on June 1, 20__ are subject to mandatory sinking fund redemption commencing June 1, 20__ (see “DESCRIPTION OF THE BONDS - Redemption Provisions - Mandatory Sinking Fund Redemption”, herein).

If any Bonds are called for redemption, notice shall be given by mailing a copy of the redemption notice at least thirty (30) days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed (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 U.S. Bank National Association, Louisville, Kentucky, as Registrar and Paying Agent (the “Paying Agent and Registrar”). 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 U.S. Bank National Association, 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 June 1 and December 1 interest payment dates on the Bonds shall be the fifteenth day of the month the respective payment dates.

Interest

The Bonds shall each be dated their date of initial delivery. The Bonds bear interest at the rates set forth on the inside cover hereof, payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2021. Interest on the Bonds shall be calculated on the basis of a 360 day year with 30 day months.

Tax Exemption

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 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, 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 not 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 Exemption” 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 U.S. Bank National Association, Louisville, Kentucky. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Dinsmore & Shohl LLP, Louisville, Kentucky, Bond Counsel. The Municipal Advisor to the City is RSA Advisors, LLC.

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”) adopted by the City Council of the City on April 26, 2021.

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 June 17, 2021 in New York, New York through the Depository Trust Company (DTC).

COVID-19 Pandemic

On March 6, 2020, the Commonwealth of Kentucky declared a state of emergency in regards to the outbreak of COVID-19 (the “COVID-19 Pandemic”) and the United States subsequently declared a national emergency on March 13, 2020. The long term effects of the COVID-19 pandemic may be significant and are undetermined at this time. (See “IMPACT OF THE COVID-19 PANDEMIC” herein).

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)(3), 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, Lexington, Kentucky 40507, Attention Mr. Joe Lakofka (859) 977-6600.

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 June 1 and December 1 of each year, commencing December 1, 2021. Interest on the Bonds is payable by check or draft mailed to the registered holder by U.S. Bank National Association, Louisville, Kentucky, the Paying Agent and

Registrar. Principal is payable when due to the registered holder upon surrender of the Bonds at the principal corporate office of the Paying Agent and Registrar.

Redemption Provisions

Optional Redemption

The Bonds maturing on and after June 1, 2030 will be subject to optional redemption prior to their maturity on any date on or after June 1, 2029, in whole or in part, in such order of maturity as may be selected by the City and by lot within a maturity at a redemption price equal to the principal amount of Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing on the dates set forth below are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates, in the years and in the principal amounts as follows:

Maturing June 1, 20[]

Date	Amount
June 1, 20[]	\$([])
June 1, 20[]*	\$([])
* Maturity]	

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 Commonwealth 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 Bond Ordinance levies such annual tax which shall be collected to the extent other lawfully available monies of the City are not provided. The Bond Ordinance also creates or requires the maintenance of 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 authorized by the Bond Ordinance 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. In addition, the City does not need the approval or permission of the State Local Debt Officer or any other governmental authority before availing itself of the bankruptcy process.

Statutory Lien

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.

BOOK ENTRY

The Bonds initially will be issued solely in book entry form to be held in the book-entry only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and 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. For additional information about DTC and the book-entry-only system see “APPENDIX F – Book-Entry Only System.”

THE INFORMATION IN THIS SECTION AND IN APPENDIX F 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

DESCRIPTION OF THE PROJECT AND PLAN OF FINANCE

The Bonds are being issued for the purpose of: (i)(a) financing a portion of the costs of the acquisition, construction, equipping, and installation of upgrades to the Virginia Theater for the benefit of the City; (b) financing all or a portion of the costs of the acquisition, construction, equipping, and installation of various municipal-owned capital projects for the benefit of the City; (c) financing all a portion of the costs of a new fire truck; (d) refinancing a loan in the amount of \$1,000,000 by Monticello Bank, the proceeds of which were used to finance the purchase of real estate for use by the City; (e) refinancing an obligation of the City owed to Citizens National Bank, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities; and (f) refinancing all or a portion of the city’s \$3,875,000 Kentucky Rural Water Fund Notes, Series 2011C, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities and (ii) paying the cost of issuance of the Bonds.

SOURCES AND USES OF FUNDS

Sources:

Par Amount of Bonds	\$
Plus: Original Issue Premium	\$
Total Sources	\$

Uses:

Deposit to Construction Fund	\$
Deposit to Prior Obligations Fund	\$
Underwriter's Discount	\$
Cost of Issuance	\$
Total Uses:	<hr/> \$

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 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 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 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 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, the 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. See “DESCRIPTION OF THE BONDS - Security and Source of Payment for 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.

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

It is possible under certain market conditions, or if the financial condition of the City should change, that the market price of the Bonds could be adversely affected.

Impact of the COVID-19 Pandemic

General. The outbreak of a novel strain of coronavirus that can result in a severe respiratory disease, referred to as COVID-19, was first detected in China in December 2019. COVID-19 has since spread across the world, resulting in the death of more than 3,000,000 people internationally and more than 550,000 people in the United States. In March 2020, the outbreak of COVID-19 was declared a pandemic (the “COVID-19 Pandemic”) by the World Health Organization, as well as a U.S. national emergency and a statewide emergency in the Commonwealth. The responses of governments, business, and individuals to the COVID-19 Pandemic have caused widespread and significant changes in economic activity. Certain sectors of the global, national, and local economies are experiencing negative effects due to reduced consumer spending and increased unemployment, as well as government mandated and voluntary responses to mitigate the COVID-19 Pandemic, including school and business closures, event cancellations, and reduced travel. Unemployment in the United States and in the Commonwealth has increased as a result of the COVID-19 Pandemic.

In late March of 2020, the United States enacted the “Coronavirus Aid, Relief, and Economic Security Act” (the “CARES Act”), a \$2.2 trillion economic stimulus bill aimed at mitigating the economic and health effects of COVID-19. The CARES Act provided money and support to individuals in the form of increased unemployment and direct payments and provided money and support to many different businesses and governmental entities. On May 1, 2021, a second \$1.9 trillion economic stimulus bill was passed, which will provide additional direct payments to individuals and another round of funding for various different businesses including an additional \$350 billion in relief to state, local, and tribal governments.

In December of 2020, the first COVID-19 vaccine, developed by Pfizer-BioNTech, began distribution in the United States and a subsequent vaccine, developed by Moderna, began distribution in late December. A third vaccine, developed by Johnson & Johnson, began distribution in late February of 2021. As of March 10, 2021, nearly 20% of the total United States population had received at least one dose of a vaccine, and 10% of the population is considered fully vaccinated. For the United States population over the age of 65, the percentages are approximately 60% and 30%, respectively.

There can be no assurances as to the continuing materiality, severity, or duration of the negative economic conditions caused by the COVID-19 Pandemic.

Impact on the Commonwealth. On March 18, 2020, pursuant to an executive order issued by the Governor of the Commonwealth, Andy Beshear, all businesses that encourage public congregation, such as entertainment, recreational, and sporting event facilities, were required to cease operations. In response to increases in new cases of COVID-19 in late June and early July 2020, Governor Beshear signed an executive order mandating masks in most public places for thirty days—and which executive order has been renewed and is ongoing.

On April 21, 2020, Governor Beshear announced the “Healthy at Work” initiative, a phased plan to reopen the economy of the Commonwealth, based on criteria set by public health experts and advice from industry experts, with progress to be monitored by the Kentucky Department for Public Health. The Healthy at Work initiative set out minimum requirements for all businesses, such as social distancing, face coverings, hand-washing, proper sanitation, and temperature checks. Additionally, the Healthy at Work initiative provides industry-specific guidance with additional rules and requirements for certain types of businesses.

As of April 5, 2021, all persons age 16 and older are eligible to receive the COVID-19 vaccine. As of April 26, 2021, approximately 1.7 million Kentuckians have been immunized.

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.

With regard to the risk involved in a lowering of the City’s bond rating, see “RATING” herein. With regard to creditors’ rights, see “DESCRIPTION OF THE BONDS – Security and Source of Payment for Bonds” herein.

PROFILE OF THE CITY AND SURROUNDING AREA

Demographic, economic and financial information with respect to the City and the surrounding area is set forth in Appendix B hereto.

CITY GOVERNMENT

Organization and Major Offices

The City operates pursuant to the general statutes of the Commonwealth of Kentucky governing municipalities under the city manager form of 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, 2021	December 31, 2022
Brian Dalton	January 1, 2021	December 31, 2022
Jerry Wheeldon	January 1, 2021	December 31, 2022
Jimmy Eastham	January 1, 2021	December 31, 2022
Jerry Girdler	January 1, 2021	December 31, 2022
Robin Daughetee	January 1, 2021	December 31, 2022
Donna Hunley	January 1, 2021	December 31, 2022
John R. Minton	January 1, 2021	December 31, 2022
David Godsey	January 1, 2021	December 31, 2022
Amanda Bullock	January 1, 2021	December 31, 2022
Tom Eastham	January 1, 2021	December 31, 2022

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

Chief of Staff	Jeffrey Edwards
Chief Financial Officer	Mike Broyles
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 Manager as Municipal Advisor in connection with City affairs, and performs such other duties as the City Council or City Manager 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, City Manager and Chief Financial Officer.
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 the Auditor of Public Accountants and 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 and (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 without limitation 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 without limitation:
 - 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 without limitation:
 - 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 of the three highest categories by a competent rating agency;
- (f) Bankers' acceptances for banks rated in one of the three highest categories by a competent rating agency;
- (g) Commercial paper rated in the highest category by a competent 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 of the three highest categories by a competent 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 years; and
 - 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.
- (k) Individual equity securities if the funds being invested are managed by a professional investment manager regulated by a federal regulatory agency. The individual equity securities shall be included within the Standard and Poor's 500 Index, and a single sector shall not exceed twenty-five percent of the equity allocation; and

- (l) Individual high-quality corporate bonds that are managed by a professional investment manager that:
 1. Are issued, assumed, or guaranteed by a solvent institution created and existing under the laws of the United States;
 2. Have a standard maturity of no more than ten years; and
 3. Are rated in the three highest rating categories by at least two competent credit rating agencies.

The City's current investment policy permits all investments permitted by the laws of the Commonwealth.

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 Chief Financial Officer, calculating the amount of the outstanding obligations of the City (including the Bonds and excluding the refunded obligations) which are subject to the total direct debt limit (5% limit). The total principal amount of general obligation debt that could be issued by the City, subject to the 5% total direct debt limitation is \$57,856,925 and the City's net debt subject to such limitation presently outstanding (including the Bonds) is \$28,322,852* leaving a balance of approximately \$29,534,063* 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 (\$.130/\$100 for real property and \$.130/\$100 for personal property) and certifying that the issuance of the Notes 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 is not presently contemplating issuing any additional general obligation debt in the immediate future.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status thereof 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 Exemption”, 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 Chief Financial Officer 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 materially affecting the financial position of the City, 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 Exemption

General

In the opinion of Bond Counsel for the 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 alternative minimum tax. 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 not 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.

In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

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.

Legislative Proposals

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters described above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such other proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding the any pending or proposed federal tax legislation.

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.

There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the marketability and/or market price of the Bonds.

The City presently expects to furnish such rating agency with information and material that it may request on future general obligation bond issues. However, the City assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. Failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of the rating agency's ratings on outstanding general obligation 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 a Continuing Disclosure Undertaking (the "Disclosure Undertaking"), to be delivered on the date of delivery of the Bonds, 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 B" and "Appendix C" of the Official Statement ("Financial Data"). The annual financial information shall be provided within 270 days after the end of the fiscal year ending June 30, commencing with the fiscal year ending June 30, 2021; 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; and;
- (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;
 - (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 an Obligated Person to provide the required Annual Financial Information on or before the date specified in the Disclosure Undertaking.

As used under this heading, “Financial Obligation” means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either (a) or (b). The term Financial Obligation does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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 Bonds.

The City has previously entered into continuing disclosure undertakings pursuant to the Rule (the “Prior Disclosure Undertakings”). For the fiscal years ended June 30, 2016 through June 30, 2018, the City failed to timely file its annual operating data as required under the Prior Disclosure Undertakings, a notice of which failure to timely file was filed to EMMA on July 17, 2020. For the Fiscal Year June 30, 2016, the City failed to timely file its annual financial information as required under the Prior Disclosure Undertakings, a notice of which failure to timely file was filed to EMMA on June 17, 2021.

For the most recent five year period, with the exception of those instances listed above, the annual financial information, including the audited financial statements and operating data were filed on time. The City intends to meet its disclosure obligations moving forward.

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, plus original issue premium of \$_____, less underwriter’s discount of \$_____). The initial public offering prices which produce the yields set forth on the inside 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, Lexington, Kentucky has been employed as Municipal Advisor in connection with the issuance of the Bonds. RSA Advisors, LLC’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof.

RSA Advisors, LLC has reviewed the information in the Official Statement in final form in accordance with and as part of its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but RSA Advisors, LLC does not guarantee the accuracy or completeness of such information.

Among other services, RSA Advisors, LLC also assists local jurisdictions in various other capacities. If the City chooses to use one or more services, then RSA Advisors, LLC may be entitled to separate compensation for such services. On prior occasions, RSA Advisors, LLC may have served the City in other capacities and may do so again in the future.

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.

This Official Statement has been duly executed and delivered for and on behalf of the City of Somerset, Kentucky, by its Mayor.

CITY OF SOMERSET, KENTUCKY

By: /s/ _____
Mayor

Dated: May __, 2021

APPENDIX A

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021**

ESTIMATED DEBT SERVICE REQUIREMENTS FOR THE BONDS

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APPENDIX B

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021**

ECONOMIC AND FINANCIAL DATA

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CITY OF SOMERSET, KENTUCKY

Somerset, the county seat of Pulaski County had a population of 11,568 according to the 2020 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 64,832 persons in 2020.

The Economic Framework

Pulaski County has a labor force of 27,820 people, with a current unemployment rate of 7.3%. The top 5 jobs by occupation are as follows: sales – 3,276 (11.57%); office and administrative support – 3,146 (11.11%); executive, managers, and administrators – 2,171 (7.67%); production workers – 2,111 (7.46%); and health diagnosing and treating practitioners – 1,837 (6.49%).

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	2016	2017	2018	2019	2020
Pulaski County	63,890	64,704	64,624	64,524	64,832
Somerset	11,471	11,609	11,453	11,457	11,568

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

Population Projections

	<u>2025</u>
Pulaski County	66,241
Somerset	11,767

Source: Kentucky State Data Center, University of Louisville

Unemployment Statistics

Description	-----Year Ending December 31-----				
	2016	2017	2018	2019	2020
County of Pulaski					
Civilian Labor Force	25,382	25,392	26,035	26,745	25,839
Employment	23,898	23,957	24,726	25,493	23,931
Unemployment	1,393	1,435	1,309	1,252	1,908
Unemployment Rate	5.50%	5.70%	5.00%	4.70%	7.30%
Commonwealth of Kentucky					
Civilian Labor Force	2,015,160	2,053,074	2,057,791	2,072,586	1,998,456
Employment	1,911,978	1,952,513	1,968,611	1,983,577	1,861,208
Unemployment	103,182	100,561	89,180	89,009	137,248
Unemployment Rate	5.10%	4.90%	4.30%	4.30%	6.90%
U.S. Comparable Rate					
Unemployment Rate	4.90%	4.40%	3.90%	3.70%	8.10 %

Source: The Kentucky Department for Employment Services, Not Seasonally Adjusted

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	2016	2017	2018	2019	2020
Real Estate	\$776,404,347	\$804,969,808	\$828,211,482	\$842,935,522	\$917,894,956
Tangible Property	164,337,628	171,416,875	171,377,128	173,581,820	171,045,709
Motor Vehicle	62,877,202	66,470,651	64,136,772	67,481,023	66,445,671
Watercraft	1,192,649	1,068,410	1,234,700	1,270,644	1,752,163
Totals:	1,004,811,826	1,043,925,744	1,064,960,082	1,085,269,009	1,157,138,499

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

Tax Collection History

	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020*
% Collected Real Estate					
Total Taxes Due	\$1,217,655	\$1,221,667	\$1,266,757	\$1,290,168	\$1,422,014
Total Taxes Paid	\$1,192,307	\$1,187,013	\$1,235,751	\$1,279,393	\$1,355,708
% Collected	97.9%	97.2%	97.6%	99.2%	95.3%

*Collected as of 2/24/202

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	59,449,000	24,167,582	83,616,582
2	Kroger Limited Partnership	16,250,000	10,551,719	26,801,719
3	Wal Mart	11,500,000	10,062,669	21,562,669
4	Don Franklin Automotive	12,155,550	2,148,918	14,304,468
5	Lowes Home Centers	6,000,000	6,171,998	12,171,998
6	Modern Distributors	0	9,861,453	9,861,453
7	Novosphere Holdings 1943	7,848,000	0	7,848,000
8	Somerset Center Hotel	5,700,000	1,248,081	6,948,081
9	Southern Economic Development	6,500,000	0	6,500,000
10	Makena Development	6,356,000	0	6,536,000

EDUCATION

Public Schools

	Pulaski County	Science Hill Independent	Somerset Independent
Total Enrollment (2019-20)	8,120	404	1,591
Pupil-Teacher Ratio	17 - 1	18 - 1	15 - 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 2018 - 19
Pulaski ATC	Somerset	762
Wayne County ATC	Monticello	524
Casey County ATC	Liberty	433
Rockcastle County ATC	Mount Vernon	438
Lake Cumberland ATC	Russell Springs	759
Corbin ATC	Corbin	418
Lincoln County ATC	Stanford	322
Garrard County ATC	Lancaster	392
Knox County ATC	Barbourville	470
Clay County ATC	Manchester	367
Trailblazer Academy	Harrodsburg	306
Marion County ATC	Lebanon	617
Madison County ATC	Richmond	770
Green County ATC	Greensburg	539
Jessamine Career & Tech. Center	Nicholasville	N/A
Bell County ATC	Pineville	822
Lee County ATC	Beattyville	312

Colleges and Universities

Institution	Location	Enrollment Fall 2019
University of the Cumberlands	Williamsburg	16,966
Berea College	Berea	1,688
Lindsey Wilson College	Columbia	2,595
Centre College	Danville	1,434
Union College	Barbourville	N/A
Campbellsville University	Campbellsville	12,629
Eastern Kentucky University	Richmond	14,980
Asbury University	Wilmore	1,714

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 C

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021**

STATEMENT OF INDEBTEDNESS

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**STATEMENT OF INDEBTEDNESS
CITY OF SOMERSET, KENTUCKY
KY CONST. §§157 and 158
KRS §66.041**

COMMONWEALTH OF KENTUCKY)
) SS
COUNTY OF PULASKI)

The undersigned Chief Financial Officer of the City of Somerset, Kentucky, Commonwealth of Kentucky (the "City"), does hereby certify that the following statements concerning the financial condition of said City are true and correct as they appear from records of the City:

1. The assessed valuation of all the taxable property in the City as estimated on the last certified assessment is	\$1,157,138,499
2. The current population of the City is	11,568
3. The total of all bonds, notes and other obligations currently issued and outstanding, including the estimated issue of the Bonds (less the obligations to be refunded)	\$47,797,669

Bonds and Bond Anticipation Notes, notes and other obligations excluded from the calculation of net indebtedness are as follows:

(a) Obligations issued in anticipation of the levy or collection of special assessments which are payable solely from those assessments or are otherwise self-supporting obligations	0
(b) Obligations issued in anticipation of the collection of current taxes or revenues for the fiscal year which are payable within that fiscal year	0
(c) Obligations, which are not self-supporting obligations, issued after July 15, 1996 by any instrumentality of the City created for the purpose of financing public projects for which there has been no pledge to the payment of debt charges of any tax of the City or for which there is no covenant by the City to collect or levy tax to pay debt charges	0
(d) Self-supporting obligations and other obligations for which there has been no pledge to the payment of debt charges of any tax of the City or for which there is no covenant by the City to collect or levy a tax to pay debt charges	19,474,807
(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 and Bond Anticipation Notes issued in the case of an emergency, when the public health or safety should so require	0
(h) Bonds and Bond Anticipation Notes issued to fund a floating indebtedness	<u> 0</u>

TOTAL EXEMPT OBLIGATIONS	\$19,474,807
5. The total of Bonds and Bond Anticipation Notes, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (line 3 minus line 4) is	\$28,322,862

IN WITNESS WHEREOF, I have hereunto set my hand this 17th day of June, 2021.

CITY OF SOMERSET, KENTUCKY

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 BONDS, SERIES 2021**

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS OF
CITY OF SOMERSET, KENTUCKY FOR FISCAL YEAR ENDING JUNE 30, 2020**

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CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2020

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis.....	3-11
Government-wide Financial Statements	
Statement of Net Position.....	12
Statement of Activities	13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
Statement of Net Position – Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds.....	18
Notes to Financial Statements	19-45
Required Supplementary Information	
Required Supplementary Budgetary Comparison – General Fund.....	46
Required Supplementary Budgetary Comparison – EMS Fund.....	47
Required Supplementary Budgetary Comparison – Waterpark Fund.....	48
Required Supplementary Budgetary Comparison – Fuel Center.....	49
Proportionate Share of the Net Pension Liability – Nonhazardous	50
Proportionate Share of the Net Pension Liability – Hazardous	51
Schedule of Pension Contributions – Nonhazardous.....	52
Schedule of Pension Contributions – Hazardous.....	53
Proportionate Share of the Net OPEB Liability – Nonhazardous	54
Proportionate Share of the Net OPEB Liability – Hazardous	55
Schedule of OPEB Contributions – Nonhazardous.....	56
Schedule of OPEB Contributions – Hazardous.....	57
Notes to Required Supplementary Information.....	58-59
Supplementary Information	
Combining Balance Sheet – All Nonmajor Funds	60
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – All Nonmajor Funds.....	61
Statement of Revenues and Expenses – Budget to Actual	
Gas Department	62
Water Department	63
Wastewater Department.....	64
Sanitation Department.....	65
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66-67
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	68-69
Schedule of Expenditures of Federal Awards.....	70
Schedule of Findings and Questioned Costs.....	71



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively, comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Somerset, Kentucky's basic financial statements. The combining nonmajor fund financial statements and proprietary statements of revenues and expenses – budget to actual are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of the City of Somerset, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Somerset, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Somerset, Kentucky's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
November 19, 2020

Management's Discussion and Analysis

Our discussion and analysis of the City of Somerset, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total assets and deferred outflows of resources were \$149.25 million
- Total bank balances totaled \$15.2 million
- Total long-term debt decreased by \$.35 million
- General fund reported a fund balance of \$1.34 million
- During the year, the City's business-type activities generated net revenues of \$2.81 million which were primarily transferred to the general governmental activities.
- Due to GASB accounting rules, the City had to state over \$42.1 million in unfunded liability for future pension cost.
- Due to GASB accounting rules, the City had to state over \$10.8 million in unfunded liability for future OPEB cost.
- Of the major business components, natural gas, sanitation and water continued to generate adequate revenues compared to expenses.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis, Continued

Reporting the City as a Whole

Government-Wide Financial Statements

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

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

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

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

Management's Discussion and Analysis, Continued

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Management's Discussion and Analysis, Continued

THE CITY AS A WHOLE

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

Table 1
Net Position
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2020	2019	2020	2019	2020	2019
Current & Other Assets	\$ (3.05)	\$ (.51)	\$ 25.20	\$ 24.97	\$ 22.15	\$ 24.46
Capital Assets	33.02	31.83	81.19	82.78	114.21	114.61
Deferred Outflows	<u>10.18</u>	<u>10.02</u>	<u>2.71</u>	<u>2.35</u>	<u>12.89</u>	<u>12.37</u>
Total Assets and Deferred Outflows	<u>40.15</u>	<u>41.34</u>	<u>109.10</u>	<u>110.10</u>	<u>149.25</u>	<u>151.44</u>
Other Liabilities	2.75	2.02	2.62	2.34	5.37	4.36
Long Term Liabilities	56.05	51.90	36.92	36.88	92.97	88.78
Deferred Inflows	<u>3.11</u>	<u>2.46</u>	<u>1.23</u>	<u>.80</u>	<u>4.34</u>	<u>3.26</u>
Total Liabilities/Deferred Inflows	<u>61.91</u>	<u>56.38</u>	<u>40.77</u>	<u>40.02</u>	<u>102.68</u>	<u>96.40</u>
Net investment in capital assets	17.48	16.73	54.47	55.29	71.95	72.02
Restricted	1.13	1.16	.74	.66	1.87	1.82
Unrestricted	<u>(40.37)</u>	<u>(32.93)</u>	<u>13.12</u>	<u>14.13</u>	<u>(27.25)</u>	<u>(18.80)</u>
Total Net Position	<u>\$ (21.76)</u>	<u>\$ (15.04)</u>	<u>\$ 68.33</u>	<u>\$ 70.08</u>	<u>\$ 46.57</u>	<u>\$ 55.04</u>

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased by \$8.45 million during fiscal year 2020. The major contributing factor for this decrease is due to increases in GASB Pension and OPEB expenses and increased expenses.

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

Total assets and deferred outflows for Governmental Activities decreased from \$41.34 million at June 30, 2019 to 40.15 million at June 30, 2020. The major contributing factor for this decrease is due to increases in GASB Pension and OPEB expenses and increased expenses.

Management's Discussion and Analysis, Continued

Table 2
Change in Net Position
(in Millions)

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

Management's Discussion and Analysis, Continued

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

Governmental Activities

The cost of all governmental activities this year was \$30.30 million compared to \$28.94 million last year. Overall, the City's governmental program fees for services decreased in 2020 from \$5.69 million to \$4.58 million. The City paid for the remaining "public benefit" portion of governmental activities with \$9.47 million in taxes and license fees, \$3.69 million in grants and entitlements, \$1.28 million of other revenues, and \$4.56 million in transfers.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, streets, waterpark, and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost increased by \$1.02 million and shows the financial burden that was placed on the City's taxpayers by each of these functions. The major contributing factors for this increase is due to increases in GASB Pension and OPEB expenses and additional personnel/payroll in public safety and retirement and health benefit increases.

Table 3
Governmental Activities
(in Millions)

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Emergency Medical Services	\$ 6.91	\$ 6.50	\$ 2.30	\$ 2.23
Police and Fire Department	11.12	9.26	9.72	8.88
Streets	1.79	1.90	1.45	1.64
Waterpark	1.89	2.04	1.15	.94
Parks and recreation	1.47	1.59	1.33	1.41
All Others	7.12	7.65	6.08	5.91
Totals	<u>\$ 30.30</u>	<u>\$ 28.94</u>	<u>\$ 22.03</u>	<u>\$ 21.01</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

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

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

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

THE CITY'S FUNDS

As the City completed the year, its general fund (as presented in the balance sheet on page 14) reported a fund balance of \$1.34 million.

General Fund Budgetary Highlights

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

For the General Fund, actual revenues were \$1.19 million less than the \$13.34 million budgeted, while actual expenditures were \$4.77 million less than the expected \$22.72 million budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

Management's Discussion and Analysis, Continued

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

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

This year's major additions were:

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

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

Management's Discussion and Analysis, Continued

Debt

As of June 30, 2020, the City's Governmental Activities long term debt had increased by \$.43 million and the Business-Type Activities long term debt decreased by \$.78 million from the prior year. We are now required to include our Net Pension Liability, which increased in the Governmental and Business-Type Activities by \$3.83 million and \$1.19 million respectively. We are now required to include our OPEB Liability, which increased in the Governmental Activities by \$.05 million and decreased in the Business-Type activities by \$.15 million. Table 5 below contains the details.

Table 5
Outstanding Debt at Year End
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Activities	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Long-Term Debt	\$ 15.53	\$ 15.10	\$ 26.77	\$ 27.55	\$ 42.30	\$ 42.65
Net Pension Liability	32.70	28.87	9.38	8.19	42.08	37.06
Net OPEB Liability	<u>8.54</u>	<u>8.49</u>	<u>2.24</u>	<u>2.39</u>	<u>10.78</u>	<u>10.88</u>
Totals	<u>\$ 56.77</u>	<u>\$ 52.46</u>	<u>\$ 38.39</u>	<u>\$ 38.13</u>	<u>\$ 95.16</u>	<u>\$ 90.59</u>

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

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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

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

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2020

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

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

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

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

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

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

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

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

	<u>General</u>	<u>EMS</u>	<u>Waterpark</u>	<u>Fuel Center</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Taxes	\$ 1,488,939	\$ -	\$ -	\$ -	\$ 197,910	\$ 1,686,849
Licenses and permits	7,776,297	-	-	-	-	7,776,297
Fines and forfeits	29,942	-	-	-	-	29,942
Charges for services	-	2,937,937	740,234	747,077	158,731	4,583,979
Intergovernmental	1,689,946	1,666,678	-	-	250,431	3,607,055
Interest income	63,478	934	759	164	1,994	67,329
Other revenues	<u>1,103,382</u>	<u>54,668</u>	<u>22,435</u>	<u>-</u>	<u>5,980</u>	<u>1,186,465</u>
Total revenues	<u>12,151,984</u>	<u>4,660,217</u>	<u>763,428</u>	<u>747,241</u>	<u>615,046</u>	<u>18,937,916</u>
EXPENDITURES						
Current:						
General administration	4,101,666	-	-	-	-	4,101,666
Public safety	8,555,187	-	-	-	-	8,555,187
Public services	164,338	-	-	-	-	164,338
Streets	1,024,576	-	-	-	110,502	1,135,078
Parks and recreation	-	-	-	-	1,177,395	1,177,395
Emergency medical services	-	5,335,006	-	-	-	5,335,006
Cemetery	-	-	-	-	117,307	117,307
Waterpark	-	-	1,168,770	-	-	1,168,770
Fuel center	-	-	-	815,901	-	815,901
Travel and tourism	-	-	-	-	194,720	194,720
Downtown revitalization	202,500	-	-	-	-	202,500
Intergovernmental programs	390,288	-	-	-	-	390,288
Capital outlay	2,621,193	272,778	39,789	-	250,792	3,184,552
Debt service	<u>898,304</u>	<u>27,114</u>	<u>155,350</u>	<u>-</u>	<u>-</u>	<u>1,080,768</u>
Total expenditures	<u>17,958,052</u>	<u>5,634,898</u>	<u>1,363,909</u>	<u>815,901</u>	<u>1,850,716</u>	<u>27,623,476</u>
Excess (deficiency) of revenues over expenditures	<u>(5,806,068)</u>	<u>(974,681)</u>	<u>(600,481)</u>	<u>(68,660)</u>	<u>(1,235,670)</u>	<u>(8,685,560)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from issuance of debt	1,000,000	-	-	-	-	1,000,000
Transfers in (out)	<u>3,000,627</u>	<u>-</u>	<u>385,000</u>	<u>-</u>	<u>1,175,000</u>	<u>4,560,627</u>
Total other financing sources and uses	<u>4,000,627</u>	<u>-</u>	<u>385,000</u>	<u>-</u>	<u>1,175,000</u>	<u>5,560,627</u>
Net change in fund balances	(1,805,441)	(974,681)	(215,481)	(68,660)	(60,670)	(3,124,933)
Fund balance-beginning	<u>3,145,632</u>	<u>(1,159,472)</u>	<u>(4,069,747)</u>	<u>106,649</u>	<u>189,451</u>	<u>(1,787,487)</u>
Fund balance-ending	\$ 1,340,191	\$ (2,134,153)	\$ (4,285,228)	\$ 37,989	\$ 128,781	\$ (4,912,420)

Reconciliation to government-wide change in net position:

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

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

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

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

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

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

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

	Business-type Activities				Total
	Gas Department	Water Department	Wastewater Department	Sanitation Department	
Operating revenues					
Sales to customers	\$ 7,833,240	\$ 7,361,187	\$ 2,717,473	\$ 3,794,030	\$ 21,705,930
Transportation/surcharges	908,121	146,174	16,807	-	1,071,102
Other operating revenues	<u>336,372</u>	<u>78,872</u>	<u>200,034</u>	<u>47,520</u>	<u>662,798</u>
Total operating revenues	<u>9,077,733</u>	<u>7,586,233</u>	<u>2,934,314</u>	<u>3,841,550</u>	<u>23,439,830</u>
Operating expenses					
Gas purchases, net of refunds	3,062,411	-	-	-	3,062,411
Operating expenses	3,290,345	3,926,529	1,900,291	3,469,381	12,586,546
Maintenance	433,983	440,539	343,905	196,252	1,414,679
Depreciation	462,855	1,479,640	1,066,724	270,992	3,280,211
Amortization	-	9,022	-	-	9,022
Total operating expenses	<u>7,249,594</u>	<u>5,855,730</u>	<u>3,310,920</u>	<u>3,936,625</u>	<u>20,352,869</u>
Operating income (loss)	<u>1,828,139</u>	<u>1,730,503</u>	<u>(376,606)</u>	<u>(95,075)</u>	<u>3,086,961</u>
Nonoperating revenues (expenses)					
Gain (loss) on disposal of capital assets	-	-	-	(13,060)	(13,060)
Interest and investment revenue	12,612	32,501	78,734	19,505	143,352
Interest expense	<u>(30,522)</u>	<u>(435,168)</u>	<u>(177,659)</u>	<u>(18,127)</u>	<u>(661,476)</u>
Total nonoperating revenues (expenses)	<u>(17,910)</u>	<u>(402,667)</u>	<u>(98,925)</u>	<u>(11,682)</u>	<u>(531,184)</u>
Income (loss) before capital contributions and transfers	1,810,229	1,327,836	(475,531)	(106,757)	2,555,777
Capital contributed - Grants	80,638	63,245	115,000	-	258,883
Transfers in (out)	<u>(2,702,670)</u>	<u>(1,469,463)</u>	<u>(6,800)</u>	<u>(385,000)</u>	<u>(4,563,933)</u>
Change in net position	(811,803)	(78,382)	(367,331)	(491,757)	(1,749,273)
Total net position-beginning	<u>10,040,363</u>	<u>39,389,271</u>	<u>18,131,971</u>	<u>2,514,484</u>	<u>70,076,089</u>
TOTAL NET POSITION-ENDING	<u>\$ 9,228,560</u>	<u>\$ 39,310,889</u>	<u>\$ 17,764,640</u>	<u>\$ 2,022,727</u>	<u>\$ 68,326,816</u>

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

CITY OF SOMERSET, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2020

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

The City reports the following major governmental funds:

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

D. Fund Balance

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Balance (continued)

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

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

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

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

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

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

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

E. Pensions

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Postemployment Benefits Other Than Pensions (OPEB)

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

G. Assets, Liabilities and Net Position or Fund Balance

Deposits and Investments

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

Cash and Cash Equivalents

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

Interfund Receivables and Payables

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

Inventories

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

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

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, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

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

H. Budgeting

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

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

I. Other Accounting Policies

Interfund Transactions

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

Use of Estimates

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

J. Management's Review of Subsequent Events

The City has evaluated and considered the need to recognize or disclose subsequent events through November 19, 2020, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2020, have not been evaluated by the City.

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

2. CASH AND INVESTMENTS

Custodial Credit Risks – Deposits

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

The balances for cash and cash equivalents and certificates of deposit for the primary government at June 30, 2020 are as follows:

Carrying amount	\$ 14,693,627
Bank balance	\$ 15,294,970
FDIC Insurance	\$ 2,576,803
Bank Deposit Guaranty Bond	\$ 801,237
Uninsured and collateral held by the pledging financial institution's trust department or agent and pledged to the City, in the depositor-government's name	\$ 11,916,930
Uninsured and uncollateralized	\$ -

Investments

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

3. ACCOUNTS AND NOTES RECEIVABLE

Accounts Receivable

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

	Accounts	Taxes	Licenses & Permits	Intergov.	Other	Allowance	Total
General Fund	\$ 95,424	\$ 29,795	\$ 1,690,629	\$ 748,661	\$ 167,958	\$ (93,659)	\$ 2,638,808
EMS Fund	2,597,985	-	-	236,546	62,487	(1,892,530)	1,004,488
Waterpark	15,922	-	-	-	-	-	15,922
Fuel Center	-	-	-	-	21,257	-	21,257
Other Gov.	31,162	-	-	44,359	-	(14,895)	60,626
Gas	390,856	-	-	22,667	100,090	-	513,613
Water	685,925	-	-	11,350	-	-	697,275
Wastewater	328,139	-	-	6,370	600	-	335,109
Sanitation	<u>435,385</u>	-	-	-	-	-	<u>435,385</u>
Totals	<u>\$ 4,580,798</u>	<u>\$ 29,795</u>	<u>\$ 1,690,629</u>	<u>\$ 1,069,953</u>	<u>\$ 352,392</u>	<u>\$ (2,001,084)</u>	<u>\$ 5,722,483</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
2021	<u>\$ 20,946</u>	<u>\$ 53</u>	<u>\$ 20,999</u>

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

4. INTERFUND RECEIVABLES AND PAYABLES

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

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

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

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

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

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

5. CAPITAL ASSETS

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

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

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

5. CAPITAL ASSETS (CONTINUED)

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

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

Primary Government

<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
Waterpark	\$ 683,264	Water	\$ 1,479,640
Streets	567,813	Wastewater	1,066,724
Public Safety	186,730	Gas	462,855
General Government	342,419	Sanitation	<u>270,992</u>
Emergency Medical Services	105,786		
Parks and Recreation	167,678		<u>\$ 3,280,211</u>
Fuel Center	28,497		
Cemetery	2,784		
Travel & Tourism	<u>3,758</u>		
	<u>\$ 2,088,729</u>		

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

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2020:

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

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

6. LONG-TERM DEBT (CONTINUED)

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

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

6. LONG-TERM DEBT (CONTINUED)

Description	June 30, 2019	Issued	Retired	June 30, 2020	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	\$ 1,223,425	\$ -	\$ 74,250	\$ 1,149,175	\$ 77,205
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2032	6,059,575	-	390,351	5,669,224	394,265
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	291,619	-	17,629	273,990	17,984
Note payable to local bank with interest at 3.25% and adjusting after 60 months to a Prime Rate, maturing in fiscal year 2035	<u>1,670,059</u>	<u>-</u>	<u>80,988</u>	<u>1,589,071</u>	<u>85,633</u>
Total Wastewater Department	<u>\$ 9,244,678</u>	<u>\$ -</u>	<u>\$ 563,218</u>	<u>\$ 8,681,460</u>	<u>\$ 575,087</u>
Sanitation Department					
Lease agreement with local bank with interest at 2.98%, maturing in fiscal year 2021	\$ 67,940	\$ -	\$ 38,389	\$ 29,551	\$ 29,551
Lease agreement with local bank with interest at 3.5% maturing in fiscal year 2023	190,190	-	53,335	136,855	55,233
Note payable to local bank with interest at 3.85%, maturing in fiscal year 2024	134,203	-	27,813	106,390	28,931
Lease agreement with local bank with interest at 4.4%, paid off in fiscal year 2020	236,647	-	236,647	-	-
Lease agreement with local bank with interest at 2.15%, maturing in fiscal year 2022	-	242,526	-	242,526	-
Lease agreement with local bank with interest at 2.12%, maturing in fiscal year 2022	-	159,981	-	159,981	-
Lease agreement with local bank with interest at 3.99%, maturing in fiscal year 2021	<u>-</u>	<u>158,760</u>	<u>-</u>	<u>158,760</u>	<u>158,760</u>
Total Sanitation Department	<u>\$ 628,980</u>	<u>\$ 561,267</u>	<u>\$ 356,184</u>	<u>\$ 834,063</u>	<u>\$ 272,475</u>

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

6. LONG-TERM DEBT (CONTINUED)

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

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

- 2016 garbage truck acquired in March of 2016. The net book value of the truck as of June 30, 2020 is \$64,890.
- 2018 garbage truck acquired in December of 2017. The net book value of the truck as of June 30, 2020 is \$176,107.
- 2020 garbage truck acquired in September 2019. The net book value of the truck as of June 30, 2020 is \$132,300.
- 2020 garbage truck acquired in March 2020. The net book value of the truck as of June 30, 2020 is \$226,358.
- 2021 garbage truck acquired in May 2020. The net book value of the truck as of June 30, 2020 is \$154,648.

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

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

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

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

6. LONG-TERM DEBT (CONTINUED)

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

Governmental Activities

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

Business-type Activities

Year ended	Principal	Interest	Total
2021	\$ 1,473,454	\$ 634,241	\$ 2,107,695
2022	1,672,910	592,916	2,265,826
2023	1,216,801	594,744	1,811,545
2024	1,172,475	532,499	1,704,974
2025	1,157,495	506,022	1,663,518
2026-2030	6,242,745	2,095,885	8,338,630
2031-2035	5,722,899	1,301,619	7,024,517
2036-2040	2,293,500	760,731	3,054,231
2041-2045	2,230,500	525,704	2,756,204
2046-2050	2,508,000	277,164	2,785,164
2051-2055	<u>1,080,500</u>	<u>34,499</u>	<u>1,114,999</u>
	<u>\$ 26,771,279</u>	<u>\$ 7,856,024</u>	<u>\$ 34,627,303</u>

The bond ordinances contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds and minimum revenue bond coverages. Funds held in the various reserves at June 30, 2020 required by the revenue bond ordinances are reported in the accompanying financial statements as restricted net position in the respective funds. At June 30, 2020, the City had sufficient funds in restricted accounts to meet required existing bond ordinances.

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

7. RETIREMENT PLAN

CERS

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

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

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

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

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

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

7. RETIREMENT PLAN (CONTINUED)

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

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

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability for its proportionate share of the net pension liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
\$ 42,082,437	\$ 17,086,150	\$ 24,996,287

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

7. RETIREMENT PLAN (CONTINUED)

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2019, was as follows:

Non-hazardous	Hazardous
.243%	.905%

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

For the year ended June 30, 2020, the City recognized pension expense of \$7,923,237. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 1,498,295	\$ 72,193
Changes of assumptions	4,155,681	-
Net difference between projected and actual earnings on Plan investments	-	629,199
Changes in proportion and differences between City contributions and proportionate share of contributions	136,949	349,027
City contributions subsequent to the measurement date	<u>2,932,989</u>	<u>-</u>
Total	<u>\$ 8,723,914</u>	<u>\$ 1,050,419</u>

The \$2,932,989 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2021	\$ 3,251,584
2022	\$ 1,052,153
2023	\$ 394,702
2024	\$ 42,067

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

7. RETIREMENT PLAN (CONTINUED)

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

Non-hazardous

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

Hazardous

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

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

The actuarial assumptions used in the June 30, 2018, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total pension liability was rolled-forward from the valuation date (June 30, 2018) to the plan's fiscal year ending June 30, 2019.

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

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

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

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

7. RETIREMENT PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

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

	Non-hazardous		Hazardous	
	Discount rate	City’s proportionate share of net pension liability	Discount rate	City’s proportionate share of net pension liability
1% decrease	5.25%	\$ 21,369,926	5.25%	\$ 31,250,968
Current discount rate	6.25%	\$ 17,086,150	6.25%	\$ 24,996,287
1% increase	7.25%	\$ 13,515,662	7.25%	\$ 19,868,351

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

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

Contributions – As more fully described in Note 7, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2020, the employer’s contribution was 4.76% to the insurance trust for non-hazardous job classifications and 9.52% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

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

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

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

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

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

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

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the City reported a liability for its proportionate share of the net OPEB liability as follows:

Total Net		
Pension Liability	Non-hazardous	Hazardous
<u>\$ 10,780,163</u>	<u>\$ 4,085,519</u>	<u>\$ 6,694,644</u>

The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2019 was as follows:

Non-hazardous	Hazardous
.243%	.905%

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

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

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

For the year ended June 30, 2020, the City recognized OPEB expense of \$1,432,744. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 2,478,118
Changes of assumptions	3,232,033	20,760
Net difference between projected and actual earnings on Plan investments	-	566,360
Changes in proportion and differences between City contributions and proportionate share of contributions	-	220,609
City contributions subsequent to the measurement date	<u>941,577</u>	<u>-</u>
Total	<u>\$ 4,173,610</u>	<u>\$ 3,285,847</u>

The \$941,577 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. This includes adjustments of \$87,723 for the nonhazardous implicit subsidy and \$4,795 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

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

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

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.30 to 10.30%, varies by service, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	
Pre – 65:	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post – 65:	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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

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

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

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

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

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

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

Discount Rate – The discount rate used to measure the total OPEB liability was 5.68% and 5.69% for non-hazardous and hazardous classifications, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

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

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

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net OPEB liability	Discount rate	City's proportionate share of net OPEB liability
1% decrease	4.68%	\$ 5,472,915	4.69%	\$ 9,340,377
Current discount rate	5.68%	\$ 4,085,519	5.69%	\$ 6,694,644
1% increase	6.68%	\$ 2,942,397	6.69%	\$ 4,547,077

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

	Non-hazardous		Hazardous	
	Discount rate	City's proportionate share of net OPEB liability	Discount rate	City's proportionate share of net OPEB liability
1% decrease		\$ 3,038,421		\$ 4,658,234
Current trend rate		\$ 4,085,519		\$ 6,694,644
1% increase		\$ 5,355,249		\$ 9,178,952

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

9. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2020 were levied in September 2019 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

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

10. TRANSFER OF FUNDS

The following transfers were made during the year:

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

11. OPERATING LEASES

The City entered into an agreement with Enterprise Fleet Management to lease the majority of its vehicles. The term of each leased vehicle varies from forty-eight to sixty months and the ownership remains with Enterprise Fleet Management. The City is responsible for all maintenance and for providing insurance on the vehicles. The City has determined the leases do not meet the definition of capital leases and is expensing the payments as they come due. Future lease obligations as of June 30, 2020, are summarized below:

Governmental Activities

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

Business-type Activities

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

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

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

12. CONDUIT DEBT

The City is the issuer of certain industrial revenue bonds issued in order to promote the local construction of production facilities. The facilities, which are constructed from the bond proceeds, are leased to the industrial companies for an amount required to annually service the debt. The lessee assumes ownership of the facilities at the completion of all lease payments required to fully service the debt. The lease payments are remitted directly to the trustee (bank) with whom the facilities are mortgaged. These bonds constitute a limited obligation of the City, payable solely from the revenues and receipts derived from the lease agreement. Accordingly, the assets and liabilities relating to these bonds are not recorded on the books of the City. The amount of bonds outstanding at June 30, 2020, is not readily available.

13. LEGAL CONTINGENCIES

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

14. RISK MANAGEMENT

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

15. COVID-19 PANDEMIC

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

16. SUBSEQUENT BOND ISSUANCE

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)
City's proportion of the net pension liability	0.257%	0.257%	0.266%	0.247%	0.253%	0.251%	0.243%
City's proportionate share of the net pension liability (asset)	\$ 9,448,091	\$ 8,349,736	\$ 11,416,098	\$ 12,144,563	\$ 14,800,439	\$ 15,215,713	\$ 17,086,150
City's covered employee payroll	\$ 5,358,488	\$ 5,861,806	\$ 6,313,654	\$ 5,859,201	\$ 6,150,570	\$ 6,245,488	\$ 6,294,251
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	176.32%	142.44%	180.82%	207.27%	240.64%	243.63%	271.46%
Plan fiduciary net position as a percentage of the total pension liability	61.22%	66.80%	59.97%	55.50%	53.32%	53.54%	50.45%

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

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

Reporting Fiscal Year (Measurement Date)	2014 (2013)	2015 (2014)	2016 (2015)	2017 (2016)	2018 (2017)	2019 (2018)	2020 (2019)
City's proportion of the net pension liability	0.923%	0.923%	0.922%	0.882%	0.908%	0.904%	0.905%
City's proportionate share of the net pension liability (asset)	\$ 12,345,466	\$ 11,098,449	\$ 14,149,168	\$ 15,135,833	\$ 20,325,117	\$ 21,852,161	\$ 24,996,287
City's covered employee payroll	\$ 4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499
City's share of the net pension liability (asset) as a percentage of its covered employee payroll	261.29%	237.06%	293.42%	332.17%	413.78%	435.06%	487.40%
Plan fiduciary net position as a percentage of the total pension liability	57.74%	63.46%	57.52%	53.95%	49.78%	49.26%	46.63%

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

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

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

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

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

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 948,760	\$ 1,016,016	\$ 1,002,090	\$ 924,463	\$ 1,066,417	\$ 1,115,070	\$ 1,275,458	\$ 1,781,641
Contributions relative to contractually required employer contribution	<u>948,760</u>	<u>1,016,016</u>	<u>1,002,090</u>	<u>924,463</u>	<u>1,066,417</u>	<u>1,115,070</u>	<u>1,275,458</u>	<u>1,781,641</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948
Employer contributions as a percentage of covered-employee payroll	20.08%	21.70%	20.78%	20.29%	21.71%	22.20%	24.87%	30.06%

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

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

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

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

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

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

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

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

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

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

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

	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required employer contribution	\$ 826,035	\$ 650,120	\$ 656,458	\$ 579,045	\$ 459,281	\$ 469,636	\$ 536,954	\$ 564,245
Contributions relative to contractually required employer contribution	<u>826,035</u>	<u>650,120</u>	<u>656,458</u>	<u>579,045</u>	<u>459,281</u>	<u>469,636</u>	<u>536,954</u>	<u>564,245</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered employee payroll	\$ 4,724,814	\$ 4,681,614	\$ 4,822,081	\$ 4,556,589	\$ 4,912,100	\$ 5,022,840	\$ 5,128,499	\$ 5,926,948
Employer contributions as a percentage of covered-employee payroll	17.48%	13.89%	13.61%	12.71%	9.35%	9.35%	10.47%	9.52%

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

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

1. GENERAL INFORMATION

Contributions

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

Payroll

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

2. CHANGES OF ASSUMPTIONS

June 30, 2019 – Pension and OPEB Hazardous and Nonhazardous

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

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

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

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

June 30, 2017 – Pension – Hazardous and Nonhazardous

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

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

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

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

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

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

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

June 30, 2014 – Pension – Hazardous and Nonhazardous

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

June 30, 2013 – Pension – Hazardous and Nonhazardous

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

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

SUPPLEMENTARY INFORMATION

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

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

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

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

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

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

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 8,335,000	\$ 7,361,187	\$ (973,813)
Transportation/surcharges	85,000	146,174	61,174
Other operating revenues	25,000	78,872	53,872
TOTAL OPERATING REVENUES	8,445,000	7,586,233	(858,767)
OPERATING EXPENSES			
Maintenance	800,000	440,539	(359,461)
Personnel services (Note 1)	1,801,850	2,051,202	249,352
Supplies	482,000	472,065	(9,935)
Utilities	850,000	819,807	(30,193)
Insurance	110,000	107,170	(2,830)
Engineering	45,000	32,511	(12,489)
Management fees	320,000	320,000	-
Other	127,000	123,774	(3,226)
Amortization	-	9,022	9,022
Depreciation	1,500,000	1,479,640	(20,360)
TOTAL OPERATING EXPENSES	6,035,850	5,855,730	(180,120)
OPERATING INCOME (LOSS)	2,409,150	1,730,503	(678,647)
NONOPERATING REVENUES (EXPENSES)			
Interest income	20,500	32,501	12,001
Interest expense	(439,020)	(435,168)	3,852
Gain (loss) on asset disposal	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(418,520)	(402,667)	15,853
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	1,990,630	1,327,836	(662,794)
Capital contributed - Grants	-	63,245	63,245
Transfers in	-	-	-
Transfers out	(1,475,630)	(1,469,463)	6,167
INCREASE (DECREASE) IN NET POSITION (Note 2)	\$ 515,000	\$ (78,382)	\$ (593,382)

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

Note 2: The City budgeted for principal debt payments and capital asset purchases. Principal debt payments and capital asset purchases are not presented on this schedule. Consequently, this schedule shows a budgeted increase in net position of \$515,000.

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

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

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

Note 2: The City budgeted for principal debt payments totaling \$563,218. Additionally, the City budgeted for \$808,580 in cash balance forward from the prior year. Principal payments and budgeted cash balance forward amounts are not presented on this schedule. Consequently, this schedule shows a budgeted decrease in net position.

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

	Budget	Actual	Variance
OPERATING REVENUES			
Sales to customers	\$ 4,250,000	\$ 3,794,030	\$ (455,970)
Other operating revenues	57,700	47,520	(10,180)
TOTAL OPERATING REVENUES	4,307,700	3,841,550	(466,150)
OPERATING EXPENSES			
Maintenance	217,500	196,252	(21,248)
Personnel services (Note 1)	1,362,300	1,505,975	143,675
Supplies	275,500	217,650	(57,850)
Utilities	14,000	16,536	2,536
Insurance	50,000	61,099	11,099
Landfill	1,300,000	1,079,712	(220,288)
Management fees	320,000	320,000	-
Other	282,800	268,409	(14,391)
Depreciation	235,000	270,992	35,992
TOTAL OPERATING EXPENSES	4,057,100	3,936,625	(120,475)
OPERATING INCOME	250,600	(95,075)	(345,675)
NONOPERATING REVENUES (EXPENSES)			
Interest income	10,000	19,505	9,505
Interest expense	(83,100)	(18,127)	64,973
Gain (loss) on asset disposal	-	(13,060)	(13,060)
TOTAL NONOPERATING REVENUES (EXPENSES)	(73,100)	(11,682)	61,418
INCOME BEFORE OPERATING TRANSFERS	177,500	(106,757)	(284,257)
OPERATING TRANSFERS			
Transfers in	-	-	-
Transfers out	(400,000)	(385,000)	15,000
TOTAL OPERATING TRANSFERS	(400,000)	(385,000)	15,000
INCREASE IN NET POSITION (Note 2)	\$ (222,500)	\$ (491,757)	\$ (269,257)

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

Note 2: The City budgeted for capital asset purchases totaling \$40,000. Additionally, the City budgeted for \$262,500 in cash balance forward from the prior year. Capital asset purchases and budgeted cash balance forward amounts are not presented on this schedule. Consequently, this schedule shows a budgeted decrease in net position.



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

To the Mayor and City Council
City of Somerset, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Somerset, Kentucky's basic financial statements, and have issued our report thereon dated November 19, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
November 19, 2020



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

To the Mayor and City Council
City of Somerset, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

RFH

RFH, PLLC
Lexington, Kentucky
November 19, 2020

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

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

Note 1 - Basis of Presentation

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

Note 2 - Indirect Cost Rates

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

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

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNone reported

Non-compliance material to financial statements noted __Yes XNo

Federal Awards:

Internal control over major programs:

Material weaknesses identified __Yes XNo

Significant deficiencies identified that are not
considered to be material weaknesses __Yes XNone reported

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

Unmodified for all major programs.

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

Major Program:

CFDA Numbers	Name of Federal Program or Cluster
---------------------	---

21.019	COVID-19 - Coronavirus Relief Fund
--------	------------------------------------

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

Auditee qualified as a low-risk auditee? __Yes XNo

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE

APPENDIX E

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021**

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 \$13,030,000* General Obligation Bonds, Series 2021 (the “Bonds”) of the City of Somerset, Kentucky (the “Issuer”), dated June 17, 2021, numbered R-1 and upwards 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 not 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,

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APPENDIX F

CITY OF SOMERSET, KENTUCKY GENERAL OBLIGATION BONDS, SERIES 2021

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, 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 certificate will be issued for each maturity date of the Bonds, each in the aggregate principal amount of such maturity, 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 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 within an issue 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend 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 Issuer or Agent, 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 securities 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX G

**CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021**

OFFICIAL TERMS AND CONDITIONS

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OFFICIAL TERMS AND CONDITIONS OF BOND SALE

\$13,030,000*

City of Somerset, Kentucky General Obligation Bonds, Series 2021

Notice is hereby given that electronic bids will be received by the City of Somerset, Kentucky (the “City”), until 11:00 a.m., local time on May 25, 2021, (or at such later time and date announced at least forty-eight hours in advance via the BiDCOMP™/PARITY™ system) for the purchase of approximately \$13,030,000* of the City’s General Obligation Bonds, Series 2021 (the “Bonds”). Bids must be submitted through BiDCOMP™/PARITY™ as described herein and no other provider of bidding services will be accepted. Bids will be opened and acted upon later that same day.

STATUTORY AUTHORITY, PURPOSE OF ISSUE AND SECURITY

These Bonds are authorized pursuant to Sections 66.011 to 66.181, inclusive, of the Kentucky Revised Statutes and are being issued in accordance with a Bond Ordinance (the “Bond Ordinance”) adopted by the City on April 26, 2021. The Bonds are general obligation bonds and constitute a direct indebtedness of the City.

The Bonds are secured by the City’s ability to levy and its pledge to levy an ad valorem tax on all property within the City in a sufficient amount to pay the principal of and interest on the Bonds when due.

The Bonds are being issued for the purpose of (1) (a) financing a portion of the costs of the acquisition, construction, equipping, and installation of upgrades to the Virginia Theater for the benefit of the City; (b) financing all or a portion of the costs of the acquisition, construction, equipping, and installation of various capital projects for the benefit of the City; (c) financing all a portion of the costs of a new fire truck; (d) refinancing an obligation of the city owed to Monticello Bank, the proceeds of which were used to finance the purchase of real estate for use by the City; (e) refinancing an obligation of the City owed to Citizens National Bank, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities; and (f) refinancing all or a portion of the city’s Kentucky Rural Water Fund Notes, Series 2011C, the proceeds of which were used to finance upgrades to the City’s waste water treatment facilities; and (2) paying the costs of issuance of the Bonds.

BOND MATURITIES AND PAYING AGENT

The Bonds will be dated their date of initial delivery, bearing interest from such date, payable on each on June 1st and August 1st, commencing with December 1, 2021.

The Bonds are scheduled to mature on June 1st, in each of the years as follows:

Maturity	Amount*	Maturity	Amount*
2022	\$800,000	2032	\$665,000
2023	810,000	2033	675,000
2024	825,000	2034	695,000
2025	825,000	2035	655,000
2026	830,000	2036	595,000
2027	840,000	2037	600,000
2028	695,000	2038	335,000
2029	700,000	2039	335,000
2030	715,000	2040	345,000
2031	730,000	2041	360,000

* Preliminary, subject to change as set forth herein.

The Bonds maturing on and after June 1, 2030 shall be subject to optional redemption prior to their maturity on any date on or after June 1, 2029, in whole or in part, in such order of maturity as may be selected by the City and by lot within a maturity at a redemption price equal to the principal amount of Bonds to be redeemed, plus accrued interest to the date of redemption.

At least thirty 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, first class, postage prepaid, to all registered owners of the Bonds to be redeemed at their addresses as they appear on the registration books kept by the Paying Agent and Registrar, but failure to mail any such notice shall not affect the validity of the proceedings for such redemption of Bonds for which such notice has been sent. 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 number or letters, if any, of such Bonds to be redeemed.

U.S. Bank National Association, Louisville, Kentucky, has been appointed Paying Agent and Registrar for the Bonds.

BIDDING CONDITIONS AND RESTRICTIONS

The terms and conditions of the sale of the Bonds are as follows:

(A) Bids for the Bonds must be submitted through BiDCOMP™/PARITY™ system and no other provider of bidding services will be accepted. Subscription to the BiDCOMP™/PARITY™ Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by BiDCOMP™/PARITY™ shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in BiDCOMP™/PARITY™ conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Bond Sale shall prevail. Bids made through the facilities of BiDCOMP™/PARITY™ shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the City. The City shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by BiDCOMP™/PARITY™. The use of BiDCOMP™/PARITY™ facilities are at the sole risk of the prospective bidders.

(B) Bidders are required to bid for the entire issue of Bonds at a minimum price of not less than \$12,769,400 (98% of par) (excluding original issue discount, if applicable), PAYABLE IN IMMEDIATELY AVAILABLE FUNDS.

(C) Interest rates for the Bonds must be in multiples of one-eighth of one percent (0.125%) and/or one-twentieth of one percent (0.05%), and all Bonds of the same maturity and all Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(D) The determination of the best bid will be made on the basis of the lowest true interest cost ("TIC") of all bids submitted for exactly \$13,030,000 of Bonds as offered for sale under the terms and conditions herein specified. The City will accept or reject such best bid, provided, however, the City reserves the right to increase or decrease the total amount of Bonds sold to such best bidder (in \$5,000 denominations). In the event of any such adjustment, no rebidding or recalculation of the bids submitted will be required. If two or more bidders offer bids at the same lowest true interest cost and the City wishes to award the Bonds, the City shall determine by lot which bidder will be awarded such Bonds.

The City also has the right to adjust individual principal maturity amounts of the par amounts designated herein, even if the total amount of the Bonds does not change, in order to promote desired annual debt service levels. If the principal amount of any maturity of the Bonds is revised after the award, the interest rate and reoffering price for each maturity and the Underwriter's Discount on the Bonds as submitted by the successful

bidder shall be held constant. "Underwriter's Discount" shall be defined as the difference between the purchase price of the Bonds submitted by the bidder and the price at which the Bonds will be issued to the public, calculated from information provided by the bidder, divided by the par amount of the Bonds bid.

(E) In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid on the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

Unless bids for the Bonds are rejected, the Bonds will be awarded on an all or none basis on the sale date to the bidder whose bid result in the lowest true interest costs for the Bonds, to be calculated by computing the total interest payable on the Bonds from the expected date of delivery, through the final maturity date, plus discount or less premium. For purposes of calculating the true interest cost, the principal amount of any Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year for the Bonds. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the Mayor or the City Clerk/Treasurer, upon the advice of the City Finance Officer/Treasurer shall determine (in his or her sole discretion) which of the bidders shall be awarded the Bonds.

The successful bidder for the Bonds will be notified by no later than 5:00 p.m. (Eastern Daylight Savings Time), on the sale date of the exact revisions and/or adjustment required, if any.

(F) Bidders have the option of specifying that Bonds maturing in any two or more consecutive years may, in lieu of maturing in each of such years, be combined to comprise one or more maturities of Bonds scheduled to mature in the latest of such year and be subject to mandatory sinking fund redemption at par in each of the years and in the principal amounts of such term Bonds scheduled in the year of maturity of the term Bonds, which principal amount shall mature in that year.

(G) The CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid for by the successful bidder or bidders. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the Bonds in accordance with the terms of any accepted proposal for the purchase of the Bonds.

(H) The City will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking City Council Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.

(I) Bids need not be accompanied by a certified or bank cashier's good faith check, but the successful bidder will be required to wire transfer to the order of the City an amount equal to 2.0% of the amount of the principal amount of Bonds awarded by the close of business on the day following the award. Said good faith amount will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of such Bonds when ready. The good-faith amount will be applied (without interest) to the purchase price upon delivery of the Bonds. The successful bidder shall not be required to take delivery and pay for the Bonds unless delivery is made within forty-five days from the date the bid is accepted.

(J) Unless the successful bidder elects to notify the Municipal Advisor within twenty-four hours of the award that standard bond certificates be issued, the Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. They will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Purchases of the Bonds under the DTC system must be made by or through securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"), which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (a "Beneficial Owner") is in turn to be recorded on the records of Direct

Participants or securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant (the “Indirect Participants”). Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued. The successful bidder may also elect to notify the Municipal Advisor within twenty-four (24) hours of the award that standard bond certificates be issued. In the event that certificated Bonds are to be issued at the election of a successful bidder, the costs of printing such Bond Certificates shall be borne by such bidder.

(K) The City reserves the right to reject any and all bids or to waive any informality in any bid. The Bonds are offered for sale subject to the principal and interest on the Bonds not being subject to Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, all in accordance with the final approving legal opinion of Dinsmore & Shohl LLP, Louisville, Kentucky, which opinion will be qualified in accordance with the section hereof on TAX EXEMPTION.

(L) Bidders are advised that RSA Advisors, LLC has been employed as Municipal Advisor in connection with the issuance of the Bonds. Their fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. They may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

(M) The winning bidder for the Bonds shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an “issue price” or similar certificate setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit A-1, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the City and Bond Counsel. All actions to be taken by the City under these Official Terms and Conditions of Bond Sale to establish the issue price of the Bonds may be taken on behalf of the City by the City’s Municipal Advisor identified herein and any notice or report to be provided to the City shall be provided to the City’s Municipal Advisor.

The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Series Bonds) will apply to the initial sale of each of the Bonds (the “competitive sale requirements”) because:

- (1) the City shall disseminate these Official Terms and Conditions of Bond Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the Bonds to the bidder who submits a firm offer to purchase the Bonds at the lowest true interest cost, as set forth in these Official Terms and Conditions of Bond Sale.

Any bid submitted pursuant to this these Official Terms and Conditions of Bond Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(N) In the event that the competitive sale requirements are not satisfied, the City shall so advise the applicable winning bidder. The City will treat the initial offering price to the public as of the sale date of any maturity of the Bonds as the issue price of that maturity (the “hold-the-offering-price rule”), in each case applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP

number within that maturity). Bids will not be subject to cancellation in the event that the City determines to apply the hold-the-offering-price rule to any maturity of the Bonds. Bidders should prepare their bids on the assumption that some or all of the maturities of the Bonds will be subject to the hold-the-offering-price rule in order to establish the issue price of the Bonds.

If the competitive sale requirements are not satisfied, the winning bidder for the Bonds shall assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an “issue price” or similar certificate setting forth the hold-the-offering-price rule as the issue price of that maturity, in each case applied on a maturity-by-maturity basis (and if different interest rates apply within a maturity, to each separate CUSIP number within that maturity) substantially in the form attached hereto as Exhibit A-2, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the City and Bond Counsel.

(O) The City acknowledges that, in making the representations set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(P) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(Q) Additional information, including the Preliminary Official Statement, the Official Terms and Conditions of Bond Sale and the Official Bid Form, may be obtained from the City’s Municipal Advisor, RSA Advisors, LLC, 325 West Main Street, Ste 300., Lexington, Kentucky 40507 telephone: (859) 977-6600. Further information regarding BiDCOMP™/PARITY™ may be obtained from BiDCOMP™/PARITY™, 1359 Broadway - 2nd Floor, New York, NY 10018, Telephone: (800) 850-7422.

(R) At the election and cost of the purchaser of the Bonds, one or more maturities of the Bonds may be insured under a municipal bond insurance policy. In such event, the City agrees to cooperate with the purchaser to qualify the Bonds for bond insurance; however the City will not assume any of the expenses incident to the issuance of such a bond insurance policy, other than the costs for securing a rating of the Bonds.

CONTINUING DISCLOSURE

In accordance with Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”) the County (the “Obligated Person”) will agree pursuant to a Continuing Disclosure 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 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, 2021; 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.

(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.

To the best knowledge of the County, the County is in compliance with the provisions of prior disclosure undertakings under the Rule.

TAX EXEMPTION

In the opinion of Bond Counsel for the 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 minimum tax. 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.

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 not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265 of the Code.

/s/ Hon. Alan Keck
Mayor, City of Somerset, Kentucky

EXHIBIT A-1

FORM OF ISSUE PRICE CERTIFICATE

[In case of receipt of at least three qualified bids for the Bonds]

ISSUE PRICE CERTIFICATE

\$_____ **City of Somerset, Kentucky General Obligation Bonds, Series 2021**

The undersigned, on behalf of [Name of Underwriter] (“[Short Name of Underwriter]”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by [Short Name of Underwriter] are the prices listed in Schedule A (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by [Short Name of Underwriter] in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by [Short Name of Underwriter] to purchase the Bonds.

(b) [Short Name of Underwriter] was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by [Short Name of Underwriter] constituted a firm offer to purchase the Bonds.

2. CUSIP Number. The CUSIP number assigned to the final maturity of the Bonds is [CUSIP Number].

3. Yield on the Bonds. It computed the yield on the Bonds, [Yield%], as that yield (determined on the basis of semiannual compounding) which, when used in computing the present worth of all payments of principal and interest to be made with respect to particular obligations, produces an amount equal to their purchase price, which, in the case of the Bonds is the Expected Offering Prices, determined without taking into account issuance expenses and Underwriter’s discount.

4. Weighted Average Maturity. The “weighted average maturity” of the Bonds has been calculated to be ____ years. The weighted average maturity is the sum of the products of the respective Expected Offering Price of each Maturity and the number of years to maturity (determined separately for each Maturity and by taking into account mandatory redemptions), divided by the aggregate Expected Offering Prices of the Bonds as of the date hereof.

5. Defined Terms.

(a) “City” means the City of Somerset, Kentucky.

(b) “Maturity” means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) “Sale Date” means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is May 25, 2021.

(e) "Underwriter" means (i) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [Short Name of Underwriter]'s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the City with respect to certain of the representations set forth in the foregoing tax certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Dinsmore & Shohl LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G and other federal income tax advice that it may give to the City from time to time relating to the Bonds.

[NAME OF UNDERWRITER]

By: _____

Name: _____

Dated: June 17, 2021

**SCHEDULE A
TO
ISSUE PRICE CERTIFICATE
EXPECTED OFFERING PRICES**

(Attached)

**SCHEDULE B
TO
ISSUE PRICE CERTIFICATE**

COPY OF BID

(Attached)

EXHIBIT A-2

FORM OF ISSUE PRICE CERTIFICATE

[In case of receipt of less than three qualified bids for the Bonds]

\$_____ **City of Somerset, Kentucky General Obligation Bonds, Series 2021**

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [Name of Underwriter] ([“[Short Name of Underwriter]”]), on behalf of itself and [Names of other Underwriters] (together, the “Underwriting Group”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

1. Sale of the General Rule Maturities. As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. Initial Offering Price of the Hold-the-Offering-Price Maturities.

(a) [Short Name of Underwriter][The Underwriting Group] offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Official Terms and Conditions of Bond Sale, [Short Name of Underwriter] has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. CUSIP Number. The CUSIP number assigned to the final maturity of the Bonds is [CUSIP Number].

4. Yield on the Bonds. It computed the yield on the Bonds, [Yield%], as that yield (determined on the basis of semiannual compounding) which, when used in computing the present worth of all payments of principal and interest to be made with respect to particular obligations, produces an amount equal to their purchase price, which, in the case of the Bonds is the Initial Offering Prices, determined without taking into account issuance expenses and Underwriter’s discount.

5. Weighted Average Maturity. The “weighted average maturity” of the Bonds has been calculated to be [_____] years. The weighted average maturity is the sum of the products of the respective Initial Offering Price of each Maturity and the number of years to maturity (determined separately for each Maturity and by taking into account mandatory redemptions), divided by the aggregate Initial Offering Prices of the Bonds as of the date hereof.

6. Defined Terms.

(a) “General Rule Maturities” means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) “Hold-the-Offering-Price” Maturities means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) “Holding Period” means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (June 1, 2021), or (ii) the date on which [Short Name of Underwriter][the Underwriting Group] [has][have] sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) “Issuer” means the City of Somerset, Kentucky.

(e) “Maturity” means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) “Sale Date” means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is May 25, 2021.

(h) “Underwriter” means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents [Short Name of Underwriter]’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the foregoing tax certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Dinsmore & Shohl LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

[NAME OF UNDERWRITER][as Representative of
the Underwriter Group]

By: _____

Name: _____

Dated: June 17, 2021

**SCHEDULE A
TO
ISSUE PRICE CERTIFICATE**

**SALE PRICES OF THE GENERAL RULE MATURITIES AND
INITIAL OFFERING PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES**

(Attached)

**SCHEDULE B
TO
ISSUE PRICE CERTIFICATE**

PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

APPENDIX H
CITY OF SOMERSET, KENTUCKY
GENERAL OBLIGATION BONDS, SERIES 2021

OFFICIAL BID FORM

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OFFICIAL BID FORM

Subject to the terms and conditions set forth in the Ordinance adopted by the City of Somerset, Kentucky (the "City") on May 18, 2021, providing for the sale of \$13,030,000* of its General Obligation Bonds, Series 2021 (the "Bonds"), and in accordance with the Official Terms and Conditions of Bond Sale, to all of which the undersigned agrees, the undersigned hereby submits the following offer to purchase the Bonds.

We hereby bid for said \$13,030,000* principal amount of the Bonds maturing on June 1, 2021, and each June 1st thereafter of the years and in the amounts set forth below, the total sum of \$_____ (not less than \$12,769,400 plus accrued interest from June 17, 2021, at the following annual rate(s), payable semiannually, commencing December 1, 2021 (number of interest rates unlimited):

Maturity	Amount*	Interest Rate	Maturity	Amount*	Interest Rate
June 1, 2022	\$800,000	_____%	June 1, 2032	\$665,000	_____%
June 1, 2023	810,000	_____%	June 1, 2033	675,000	_____%
June 1, 2024	825,000	_____%	June 1, 2034	695,000	_____%
June 1, 2025	825,000	_____%	June 1, 2035	655,000	_____%
June 1, 2026	830,000	_____%	June 1, 2036	595,000	_____%
June 1, 2027	840,000	_____%	June 1, 2037	600,000	_____%
June 1, 2028	695,000	_____%	June 1, 2038	335,000	_____%
June 1, 2029	700,000	_____%	June 1, 2039	335,000	_____%
June 1, 2030	715,000	_____%	June 1, 2040	345,000	_____%
June 1, 2031	730,000	_____%	June 1, 2041	360,000	_____%

PURCHASER'S OPTION - The Purchaser of the Bonds may specify to the City that any Bonds may be combined with immediately succeeding sequential maturities into a Term Bond or Term Bonds, bearing a single rate of interest, with the maturities set forth above (or as such may be adjusted as provided herein) comprising mandatory sinking fund redemption amounts for such Term Bond(s).

The amounts indicated above maturing in the following years: _____ are sinking fund redemption amounts for term bonds due _____.

The amounts indicated above maturing in the following years: _____ are sinking fund redemption amounts for term bonds due _____.

Neither the City nor the Municipal Advisor assumes any responsibility whatsoever with regard to the receipt of bids, or that adequate personnel and/or equipment are available to accept all telephonic transfers of bids before the appointed date and time of sale. Bidders have the sole responsibility of assuring that their bids have been received. Bids must be submitted electronically via PARITY® pursuant to this Notice until the appointed date and time, but no bid will be received after such time.

It is understood that the City will furnish the final, approving Legal Opinion of Dinsmore & Shohl LLP, Bond Counsel to the City. We understand that no certified or bank cashier's check will be required to accompany the bid, but that if we are the successful bidder, we shall be required to wire transfer an amount equal to two percent (2.0%) of the amount of Bonds awarded by the close of business on the day following the award. Said amount will be applied (without interest) to the purchase price when the Bonds are tendered to us for delivery.

* Preliminary, subject to change as set forth in the Official Terms and Conditions of Bond Sale.

If we are the successful bidder, we agree to accept and make payment for the Bonds in immediately available funds within forty-five days from the date of sale in accordance with the terms of the sale.

Respectfully submitted,

Bidder

Address

By: _____
Signature

Total interest cost from June 17, 2021, to final maturity	\$ _____
Plus discount or less premium, if any	\$ _____
True interest cost (i.e. TIC)	\$ _____
True interest rate (%)	_____ %

The above computation of true interest cost and of true interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted this May 25, 2021 by the City of Somerset, Kentucky, as follows:

Maturity	Amount	Interest Rate	Maturity	Amount	Interest Rate
June 1, 2022	\$ _____	_____ %	June 1, 2032	\$ _____	_____ %
June 1, 2023	\$ _____	_____ %	June 1, 2033	\$ _____	_____ %
June 1, 2024	\$ _____	_____ %	June 1, 2034	\$ _____	_____ %
June 1, 2025	\$ _____	_____ %	June 1, 2035	\$ _____	_____ %
June 1, 2026	\$ _____	_____ %	June 1, 2036	\$ _____	_____ %
June 1, 2027	\$ _____	_____ %	June 1, 2037	\$ _____	_____ %
June 1, 2028	\$ _____	_____ %	June 1, 2038	\$ _____	_____ %
June 1, 2029	\$ _____	_____ %	June 1, 2039	\$ _____	_____ %
June 1, 2030	\$ _____	_____ %	June 1, 2040	\$ _____	_____ %
June 1, 2031	\$ _____	_____ %	June 1, 2041	\$ _____	_____ %

Mayor
City of Somerset, Kentucky