

CITY OF SOMERSET
Somerset, Kentucky



FINANCIAL STATEMENTS
June 30, 2014

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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, 2014. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's net position was \$100.574 million with unrestricted of \$15 million, \$5 million in restricted expendable, and \$81 million in net investment in capital assets. The 2013 net position was \$97.983 million with major projects being completed or under construction (water and sewer plants).
- During the year, the City's business type activities generated net revenues of \$8.447 million which was primarily transferred to the general governmental activities.
- Of the major business components, natural gas, sanitation and water continue to generate adequate revenues and compared to expenses. EMS and water park continue to generate less revenue than expenses.
- Total assets increased from \$143.04 million in 2013 to \$145.72 in 2014

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 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 assets 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 three kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including the police, fire, emergency medical services, fuel center, 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, water park and sanitation departments are reported here.
- **Component unit**—The City includes a separate legal entity in its report—Downtown Somerset Development Corporation. Although legally separate, this component unit is important because the City is financially accountable for them.

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 Assets 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 Assets 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. We use the internal service fund (the other component of proprietary funds) to report activities of our Utility Billing department that provides services for the City's utilities.

Management's Discussion and Analysis, Continued

THE CITY AS A WHOLE

The City's combined net position increased from a year ago-decreasing from \$98.38 million to \$100.57 million. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2014	2013	2014	2013	2014	2013
Current & Other Assets	\$ 3.68	\$ 5.05	\$ 20.57	\$ 20.90	\$ 24.25	\$ 25.95
Capital Assets	20.82	21.34	100.64	96.14	121.46	117.48
Total Assets	<u>24.50</u>	<u>26.39</u>	<u>121.21</u>	<u>117.04</u>	<u>145.71</u>	<u>143.43</u>
Other Liabilities	1.25	1.96	2.85	2.85	4.10	4.81
Long-term Debt	7.20	7.20	33.84	33.04	41.04	40.24
Total Liabilities	<u>8.45</u>	<u>9.16</u>	<u>36.69</u>	<u>35.89</u>	<u>45.14</u>	<u>45.05</u>
Investment in Capital Assets, net of Debt	13.62	13.31	66.90	62.58	80.52	75.89
Restricted	-	0.02	4.93	5.05	4.93	5.07
Unrestricted, restated	2.43	3.90	12.69	13.52	15.12	17.42
Total Net Assets	<u>\$ 16.05</u>	<u>\$ 17.23</u>	<u>\$ 84.52</u>	<u>\$ 81.15</u>	<u>\$ 100.57</u>	<u>\$ 98.38</u>

Net position of the City's governmental activities decreased \$0.24 million from a year ago. Unrestricted net assets, 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 from \$3.90 million at June 30, 2013 to \$2.43 million at the end of this year.

The net assets of our business-type activities were also relatively unchanged decreasing from \$81.15 million at June 30, 2013 to \$84.52 million at the end of this year.

Total assets increased from \$143.43 million at June 30, 2013 to \$145.71 million at June 30, 2014.

Management's Discussion and Analysis, Continued

Table 2
Changes in Net Assets
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Activities	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 3.56	\$ 3.56	\$ 24.98	\$ 24.51	\$ 28.54	\$ 28.07
Federal & State Grants	2.06	2.65	5.54	0.96	7.60	3.61
General Revenues						
Property Taxes	1.32	1.30	-	-	1.32	1.30
Other Taxes	4.10	3.18	-	-	4.10	3.18
Other General Revenues	<u>1.15</u>	<u>0.98</u>	<u>0.07</u>	<u>0.02</u>	<u>1.22</u>	<u>1.00</u>
Total Revenues	<u>12.19</u>	<u>11.67</u>	<u>30.59</u>	<u>25.49</u>	<u>42.78</u>	<u>37.16</u>
Program Expenses						
General Government	3.58	2.78	-	-	3.58	2.78
Public Safety	5.93	6.19	-	-	5.93	6.19
Public Services	0.34	0.40	-	-	0.34	0.40
Streets	1.49	1.39	-	-	1.49	1.39
Parks and Recreation	1.32	1.08	-	-	1.32	1.08
Emergency Medical Services	4.78	4.89	-	-	4.78	4.89
Cemetery	0.07	0.17	-	-	0.07	0.17
Fuel Center	0.26	0.26	-	-	0.26	0.26
Economic Development	0.10	0.09	-	-	0.10	0.09
Travel and Tourism	0.06	-	-	-	0.06	-
Intergovernmental Programs	0.15	0.13	-	-	0.15	0.13
Downtown Revitalization	0.19	0.16	-	-	0.19	0.16
Debt Service - Interest	0.24	0.26	-	-	0.24	0.26
Gas	-	-	9.46	9.20	9.46	9.20
Water	-	-	4.83	4.11	4.83	4.11
Wastewater	-	-	3.10	3.05	3.10	3.05
Waterpark	-	-	2.42	2.15	2.42	2.15
Sanitation	<u>-</u>	<u>-</u>	<u>2.27</u>	<u>2.06</u>	<u>2.27</u>	<u>2.06</u>
Total Expense	<u>18.51</u>	<u>17.80</u>	<u>22.08</u>	<u>20.57</u>	<u>40.59</u>	<u>38.37</u>
Excess (Deficiency) before Transfer	(6.32)	(6.13)	8.51	4.92	2.19	(1.21)
Transfers	<u>5.14</u>	<u>5.19</u>	<u>(5.14)</u>	<u>(5.19)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets	(1.18)	(0.94)	3.37	(0.27)	2.19	(1.21)
Net assets, beginning, restated	<u>17.23</u>	<u>18.17</u>	<u>81.15</u>	<u>81.42</u>	<u>98.38</u>	<u>99.59</u>
Net assets, ending, restated	<u>\$ 16.05</u>	<u>\$ 17.23</u>	<u>\$ 84.52</u>	<u>\$ 81.15</u>	<u>\$ 100.57</u>	<u>\$ 98.38</u>

Management's Discussion and Analysis, Continued

The City's total revenues increased by \$5.62 million. The total cost of all programs and services increased by \$2.22 million. Our analysis below separately considers the operations of governmental and business-type activities.

Governmental Activities

The largest revenue decrease was in federal and state grants. Although the City continues to reduce the property tax rate to residents in an effort to enhance growth and general wellbeing for our citizens the increased growth of the City and property values within its limits resulted in an increase in the Occupational tax revenue as well as other tax revenues during the year.

The cost of all governmental activities this year was \$18.51 million compared to \$17.80 million last year. Overall, the City's governmental program revenues, including intergovernmental aid and fees for services, decreased in 2013 from \$3.56 million to \$3.56 million. The City paid for the remaining "public benefit" portion of governmental activities with \$5.42 million in taxes, \$2.06 million in grants and entitlements, \$1.15 million of other revenues, \$5.14 in transfers, and \$1.18 million of assets on hand at the beginning of the year.

Table 3 presents the cost of each of the City's five largest programs-emergency medical and fire services, police, public services, streets and parks and recreation-as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3
Governmental Activities
(in Millions)

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Emergency Medical Services	\$ 4.78	\$ 4.89	\$ 0.31	\$ 0.60
Police and Fire Department	5.93	6.19	5.61	5.13
Public Services	0.34	0.40	0.29	0.35
Street Department	1.49	1.39	1.24	1.11
Parks and Recreation	1.32	1.08	1.17	0.92
All Others	4.65	3.85	4.27	3.49
Totals	<u>\$ 18.51</u>	<u>\$ 17.80</u>	<u>\$ 12.89</u>	<u>\$ 11.60</u>

Management's Discussion and Analysis, Continued

Business-Type Activities

Revenues of the City's business-type activities (see Table 2) increased by \$5.1 million (\$30.59 million in 2014 compared to \$25.49 million in 2013) and expenses increased by \$1.5 million (\$22.08 million in 2014 compared to \$20.57 million in 2013). The factors driving these results include:

- Natural gas revenues have been studied, adjusted and maximized to their potential in the last fiscal year. The extra cash generated will be used to help offset other costs to City residents and to do major projects in the future. These plans have also allowed the City to lock the utility rates for customers inside the city limits for the next budget year. This is very important in helping our residents through these tough economic times.
- Utility rates have been adjusted to customers outside the City limits. This was done to help enhance the idea of annexing into the City and also to offset expansion of the existing Water and Wastewater plants. These plants currently have enough capacity to serve the residents inside the City, but growth outside the City has caused the need to expand.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$2.46 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget to adjust between expense categories in various funds. These budget amendments did not change the originally budgeted net income of any fund.

For the General Fund, actual revenues were \$0.34 million more than the \$6.58 million budgeted, while actual expenditures were -\$1.40 million less than the expected \$13.61 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had \$121.46 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.) This amount represents a net increase (including additions and deductions) of approximately \$13.88 million, over last year.

Management's Discussion and Analysis, Continued

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 1.49	\$ 1.44	\$ 1.35	\$ 1.35	\$ 2.84	\$ 2.79
Right of Way and Easements	0.01	0.01	0.12	0.11	0.13	0.12
Construction in Progress	0.73	0.62	1.59	36.75	2.32	37.37
Infrastructure	11.49	12.04	-	-	11.49	12.04
Utility Plant and Distribution System	-	-	47.63	32.17	47.63	32.17
Buildings and Improvements	4.90	4.80	40.87	16.47	45.77	21.27
Water Park Attractions	-	-	6.66	7.12	6.66	7.12
Vehicles	1.32	1.48	0.87	0.49	2.19	1.97
Equipment	0.62	0.61	0.67	0.74	1.29	1.35
Office Equipment	0.14	0.20	0.46	0.50	0.60	0.70
Land Improvements	0.12	0.14	0.42	0.44	0.54	0.58
Total Net Assets	<u>\$ 20.82</u>	<u>\$ 21.34</u>	<u>\$ 100.64</u>	<u>\$ 96.14</u>	<u>\$ 121.46</u>	<u>\$ 117.48</u>

This year's major additions were:

The City is continuing its goal of improving quality of life in our town. Streetscape on North Main and Oak Streets were completion. Several natural gas vehicles were added in City departments to provide better service for our residents while decreasing fuel cost to the taxpayers for these services. The Marydale Project was started and we are continuing to make progress toward its completion. The Energy Center project is nearing the construction phase with funding through USDA. Several Several sidewalk projects were completed around various neighborhoods as well.

More detailed information about the City's capital assets is presented in Note 1 to the financial statements.

Management's Discussion and Analysis, Continued

Debt

At year-end, the City had \$41.05 million in long term debt versus \$41.69 million last year as shown in Table 5.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Short-Term Financing	\$ -	\$ -	\$ 0.52	\$ 8.08	\$ 0.52	\$ 8.08
Long-Term Debt	7.20	8.03	33.33	25.58	40.53	33.61
Totals	<u>\$ 7.20</u>	<u>\$ 8.03</u>	<u>\$ 33.85</u>	<u>\$ 33.66</u>	<u>\$ 41.05</u>	<u>\$ 41.69</u>

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

The new Water Plant was completed with an approximate cost of \$25 million. Funding of \$5 million in grants and \$20 million in low interest loans and bonds will be used for this project. Work has begun on Midtown Sanitary Sewer Upgrades Project. The estimated cost of construction is \$3.1 million. Funding of \$1.8 million in EDA grants and \$1.3 million in local funds will be used for this project.

The City is looking at interest rates on current bond issues. Plans are 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 Budget Director at Somerset City Hall, 400 E. Mt. Vernon, Somerset, Kentucky.



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

Mayor and the City Council
City of Somerset
Somerset, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky as of and for the year ended June 30, 2014, 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 an opinion 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 auditors consider 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.

Opinion

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of June 30, 2014, 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.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1–9 and 47-48 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 the 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 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 March 7, 2015, 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 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 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.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley, & Company, PLLC
March 7, 2015

City of Somerset, Kentucky
Statement of Net Position
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,294,288	\$ 5,404,929	\$ 6,699,217	\$ 73,239
Certificates of deposit	1,006,914	4,900,076	5,906,990	117,479
Accounts receivable, net	1,551,861	3,895,257	5,447,118	1,500
Accrued interest receivable	719	2,140	2,859	-
Inventories	120,644	863,051	983,695	-
Prepaid expenses	90,128	59,690	149,818	3,135
Internal balances, net	(403,699)	403,699	-	-
Due from component unit	19,765	-	19,765	-
Notes receivable	-	-	-	-
Restricted cash	2,630	4,170,580	4,173,210	-
Restricted certificates of deposit	-	759,830	759,830	-
Nondepreciable capital assets	2,232,821	3,070,818	5,303,639	302,072
Depreciable capital assets, net	18,588,555	97,565,084	116,153,639	189,828
Excess cost over market value of assets acquired, net	-	105,323	105,323	-
Total assets	<u>24,504,626</u>	<u>121,200,477</u>	<u>145,705,103</u>	<u>687,253</u>
Deferred Outflows of Resources				
Defeasance on refunding	-	14,133	14,133	-
Total assets and deferred outflows of resources	<u>\$ 24,504,626</u>	<u>\$ 121,214,610</u>	<u>\$ 145,719,236</u>	<u>\$ 687,253</u>
Liabilities				
Accounts payable	\$ 186,674	\$ 1,808,731	\$ 1,995,405	\$ 1,372
Due to primary government	-	-	-	12,542
Due to other governments	55,191	-	55,191	-
Accrued interest payable	34,406	15,021	49,427	-
Other current liabilities	979,091	1,022,358	2,001,449	3,630
Current portion of long-term debt	850,000	1,261,596	2,111,596	-
Short-term debt to be refinanced	-	516,253	516,253	-
Long-term debt	6,351,785	32,064,151	38,415,936	-
Total liabilities	<u>8,457,147</u>	<u>36,688,110</u>	<u>45,145,257</u>	<u>17,544</u>
Net Position				
Net investment in capital assets	13,619,591	66,899,225	80,518,816	491,900
Restricted, expendable	2,630	4,930,410	4,933,040	-
Unrestricted	2,425,258	12,696,865	15,122,123	177,809
Total net position	<u>16,047,479</u>	<u>84,526,500</u>	<u>100,573,979</u>	<u>669,709</u>
Total liabilities and net position	<u>\$ 24,504,626</u>	<u>\$ 121,214,610</u>	<u>\$ 145,719,236</u>	<u>\$ 687,253</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total	Component Unit
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental Activities								
General government	\$ 3,585,904	\$ 301,256	\$ -	\$ -	\$ (3,284,648)	\$ -	\$ (3,284,648)	\$ -
Public safety	5,934,555	13,890	310,078	-	(5,610,587)	-	(5,610,587)	-
Public services	338,905	-	48,930	-	(289,975)	-	(289,975)	-
Streets	1,494,698	-	259,073	-	(1,235,625)	-	(1,235,625)	-
Parks and recreation	1,317,907	149,740	-	-	(1,168,167)	-	(1,168,167)	-
Emergency medical services	4,781,336	3,028,918	1,437,672	-	(314,746)	-	(314,746)	-
Cemetery	67,509	41,250	-	-	(26,259)	-	(26,259)	-
Fuel Center	259,214	29,634	-	-	(229,580)	-	(229,580)	-
Economic development	95,159	-	-	-	(95,159)	-	(95,159)	-
Travel and tourism	58,068	287	-	-	(57,781)	-	(57,781)	-
Intergovernmental programs	149,057	-	-	-	(149,057)	-	(149,057)	-
Downtown revitalization	190,291	-	-	-	(190,291)	-	(190,291)	-
Debt service - interest	238,583	-	-	-	(238,583)	-	(238,583)	-
Total governmental activities	18,511,186	3,564,975	2,055,753	-	(12,890,458)	-	(12,890,458)	-
Business-Type Activities								
Gas Department	9,462,464	12,691,567	-	-	-	3,229,103	3,229,103	-
Water Department	4,829,099	6,520,088	-	4,852,568	-	6,543,557	6,543,557	-
Wastewater Department	3,095,780	2,369,238	-	688,387	-	(38,155)	(38,155)	-
Sanitation Department	2,416,433	2,389,567	-	-	-	(26,866)	(26,866)	-
Water Park Department	2,271,430	1,010,676	-	-	-	(1,260,754)	(1,260,754)	-
Total business-type activities	22,075,206	24,981,136	-	5,540,955	-	8,446,885	8,446,885	-
Total primary government	40,586,392	28,546,111	2,055,753	5,540,955	(12,890,458)	8,446,885	(4,443,573)	-
Component Unit								
Downtown Somerset Development Corporation	234,911	33,747	192,541	-	-	-	-	(8,623)
General Revenues:								
Property tax					1,321,861	-	1,321,861	-
Insurance premium tax					1,682,659	-	1,682,659	-
Occupational tax					1,446,935	-	1,446,935	-
ABC tax					745,583	-	745,583	-
Transient room tax					227,020	-	227,020	-
Licenses and permits					838,686	-	838,686	-
Interest income					17,751	71,973	89,724	1,056
Other revenues					289,957	-	289,957	-
Total general revenues					6,570,452	71,973	6,642,425	1,056
Gain (loss) on asset disposal					(2,086)	1,374	(712)	-
Transfers					5,142,825	(5,142,825)	-	-
Total general revenues and transfers					11,711,191	(5,069,478)	6,641,713	1,056
Change in net position					(1,179,267)	3,377,407	2,198,140	(7,567)
Net position, beginning of year, restated					17,226,746	81,149,093	98,375,839	677,276
Net position, end of year					\$ 16,047,479	\$ 84,526,500	\$ 100,573,979	\$ 669,709

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Balance Sheets
Governmental Funds
June 30, 2014

	<u>General</u>	<u>EMS Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 585,378	\$ 125,483	\$ 583,427	\$ 1,294,288
Certificates of deposit	1,006,914	-	-	1,006,914
Accounts receivable, net	836,230	633,258	82,373	1,551,861
Accrued interest receivable	719	-	-	719
Inventories	15,053	-	105,591	120,644
Prepaid expenses	61,068	20,809	8,251	90,128
Due from other funds	4,355,331	1,265	98,621	4,455,217
Due from component unit	19,765	-	-	19,765
Restricted cash	2,630	-	-	2,630
	<u>2,630</u>	<u>-</u>	<u>-</u>	<u>2,630</u>
 Total assets	 <u>\$ 6,883,088</u>	 <u>\$ 780,815</u>	 <u>\$ 878,263</u>	 <u>\$ 8,542,166</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 91,465	\$ 22,698	\$ 72,511	\$ 186,674
Due to other funds	4,535,232	252,886	70,798	4,858,916
Due to other governments	55,191	-	-	55,191
Other current liabilities	814,801	125,116	39,174	979,091
	<u>814,801</u>	<u>125,116</u>	<u>39,174</u>	<u>979,091</u>
 Total liabilities	 <u>5,496,689</u>	 <u>400,700</u>	 <u>182,483</u>	 <u>6,079,872</u>
 Fund Balances				
Nonspendable	76,121	20,809	113,842	210,772
Restricted	-	-	205,549	205,549
Committed	2,630	-	376,420	379,050
Assigned	-	359,306	-	359,306
Unassigned	1,307,648	-	(31)	1,307,617
	<u>1,307,648</u>	<u>-</u>	<u>(31)</u>	<u>1,307,617</u>
 Total fund balances	 <u>1,386,399</u>	 <u>380,115</u>	 <u>695,780</u>	 <u>2,462,294</u>
 Total liabilities and fund balances	 <u>\$ 6,883,088</u>	 <u>\$ 780,815</u>	 <u>\$ 878,263</u>	 <u>\$ 8,542,166</u>

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances - total governmental funds	\$ 2,462,294
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets and the related accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	20,821,376
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(7,236,191)</u>
Net position, end of year - governmental activities	<u>\$ 16,047,479</u>

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2014

	<u>General Fund</u>	<u>EMS Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 1,321,861	\$ -	\$ -	\$ 1,321,861
Licenses and permits	5,019,626	-	-	5,019,626
Fines and forfeits	5,774	-	-	5,774
Charges for services	-	3,028,918	220,624	3,249,542
Intergovernmental revenues	335,695	1,437,672	535,023	2,308,390
Interest income	14,328	648	2,775	17,751
Other revenues	<u>226,000</u>	<u>16,236</u>	<u>25,999</u>	<u>268,235</u>
 Total revenues	 <u>6,923,284</u>	 <u>4,483,474</u>	 <u>784,421</u>	 <u>12,191,179</u>
Expenditures				
Current				
General government	3,399,681	-	-	3,399,681
Public safety	5,648,146	-	-	5,648,146
Public services	338,905	-	-	338,905
Streets	750,856	-	153,719	904,575
Parks and recreation	-	-	1,232,753	1,232,753
Emergency medical services	-	4,625,450	-	4,625,450
Cemetery	-	-	64,725	64,725
Fuel Center	-	-	238,332	238,332
Economic development	-	-	95,159	95,159
Travel and tourism	-	-	58,068	58,068
Intergovernmental programs	148,615	-	-	148,615
Downtown revitalization	190,291	-	-	190,291
Capital outlay	652,184	-	313,990	966,174
Debt service				
Principal	830,000	-	-	830,000
Interest	<u>244,536</u>	<u>-</u>	<u>-</u>	<u>244,536</u>
 Total expenditures	 <u>12,203,214</u>	 <u>4,625,450</u>	 <u>2,156,746</u>	 <u>18,985,410</u>
 Excess (deficiency) of revenues over expenditures	 <u>(5,279,930)</u>	 <u>(141,976)</u>	 <u>(1,372,325)</u>	 <u>(6,794,231)</u>
Other Financing Sources (Uses)				
Proceeds from sale of assets	157,595	-	450	158,045
Transfer from other funds	5,400,000	-	1,677,590	7,077,590
Transfer to other funds	<u>(1,910,165)</u>	<u>(25,000)</u>	<u>-</u>	<u>(1,935,165)</u>
 Total other financing sources (uses)	 <u>3,647,430</u>	 <u>(25,000)</u>	 <u>1,678,040</u>	 <u>5,300,470</u>
 Net change in fund balances	 (1,632,500)	 (166,976)	 305,715	 (1,493,761)
Fund balances, beginning of year, restated	<u>3,018,899</u>	<u>547,091</u>	<u>390,065</u>	<u>3,956,055</u>
Fund balances, end of year	<u>\$ 1,386,399</u>	<u>\$ 380,115</u>	<u>\$ 695,780</u>	<u>\$ 2,462,294</u>

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds to the Statement of Activities
for the year ended June 30, 2014

Net change in fund balances - total governmental funds	\$ (1,493,761)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(523,545)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	835,953
Gains or losses on disposals of capital assets are shown in the statement of activities based on whether the amount of proceeds exceed the net book value of the underlying asset, while the full proceeds are shown as revenue in the governmental fund statements.	<u>2,086</u>
Change in net position of governmental activities	<u><u>\$ (1,179,267)</u></u>

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities					Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Waterpark		
Assets							
Current Assets							
Cash and cash equivalents	\$ 2,674,598	\$ 841,740	\$ 739,530	\$ 844,370	\$ 176,652	\$ 5,276,890	\$ 128,039
Certificates of deposit	-	500,000	3,800,044	600,032	-	4,900,076	-
Accounts receivable, net	532,950	1,768,376	1,283,184	290,427	359	3,875,296	19,961
Accrued interest receivable	-	208	1,687	245	-	2,140	-
Inventories	340,780	428,205	74,790	-	19,276	863,051	-
Prepaid expenses	10,822	14,251	8,594	8,915	14,429	57,011	2,679
Due from other funds	1,004,066	4,573,762	252,411	16,894	904	5,848,037	-
Total current assets	<u>4,563,216</u>	<u>8,126,542</u>	<u>6,160,240</u>	<u>1,760,883</u>	<u>211,620</u>	<u>20,822,501</u>	<u>150,679</u>
Restricted Assets							
Restricted cash	-	3,947,339	223,241	-	-	4,170,580	-
Restricted certificates of deposit	-	759,830	-	-	-	759,830	-
Total restricted assets	<u>-</u>	<u>4,707,169</u>	<u>223,241</u>	<u>-</u>	<u>-</u>	<u>4,930,410</u>	<u>-</u>
Plant, Property and Equipment							
Nondepreciable property, plant and equipment	273,602	644,933	1,625,959	-	526,324	3,070,818	-
Depreciable property, plant and equipment	26,142,858	66,892,589	42,089,896	2,136,738	14,496,025	151,758,106	16,771
Less accumulated depreciation	(17,963,543)	(14,618,288)	(15,093,191)	(1,437,273)	(5,085,745)	(54,198,040)	(11,753)
Total plant, property and equipment	<u>8,452,917</u>	<u>52,919,234</u>	<u>28,622,664</u>	<u>699,465</u>	<u>9,936,604</u>	<u>100,630,884</u>	<u>5,018</u>
Noncurrent Assets							
Excess cost over market value of assets acquired, net	-	105,323	-	-	-	105,323	-
Deferred Outflows of Resources							
Defeasance on refunding	-	14,133	-	-	-	14,133	-
Total assets	<u>\$ 13,016,133</u>	<u>\$ 65,872,401</u>	<u>\$ 35,006,145</u>	<u>\$ 2,460,348</u>	<u>\$ 10,148,224</u>	<u>\$ 126,503,251</u>	<u>\$ 155,697</u>
Liabilities							
Current Liabilities							
Accounts payable	\$ 327,446	\$ 754,165	\$ 535,301	\$ 95,050	\$ 67,441	\$ 1,779,403	\$ 29,328
Due to other funds	140,791	468,163	154,719	68,149	4,603,694	5,435,516	8,822
Accrued interest payable	-	-	15,021	-	-	15,021	-
Other current liabilities	112,938	576,080	179,536	39,482	105,195	1,013,231	9,127
Current portion of long-term debt	1,409	731,000	529,187	-	-	1,261,596	-
Customers' advances for construction	-	-	-	-	-	-	-
Total current liabilities	<u>582,584</u>	<u>2,529,408</u>	<u>1,413,764</u>	<u>202,681</u>	<u>4,776,330</u>	<u>9,504,767</u>	<u>47,277</u>
Long-term Liabilities							
Short-term debt to be refinanced	-	-	516,253	-	-	516,253	-
Notes payable	31,676	-	358,700	-	-	390,376	-
Revenue bonds payable	786,686	19,821,991	9,352,244	-	1,712,854	31,673,775	-
Total long-term liabilities	<u>818,362</u>	<u>19,821,991</u>	<u>10,227,197</u>	<u>-</u>	<u>1,712,854</u>	<u>32,580,404</u>	<u>-</u>
Total liabilities	<u>1,400,946</u>	<u>22,351,399</u>	<u>11,640,961</u>	<u>202,681</u>	<u>6,489,184</u>	<u>42,085,171</u>	<u>47,277</u>
Net Position							
Net investment in capital assets	7,633,146	32,471,566	17,866,280	699,465	8,223,750	66,894,207	5,018
Restricted, expendable							
Debt service	-	1,986,446	-	-	-	1,986,446	-
Construction	-	2,720,723	223,241	-	-	2,943,964	-
Unrestricted	3,982,041	6,342,267	5,275,663	1,558,202	(4,564,710)	12,593,463	103,402
Total net position	<u>11,615,187</u>	<u>43,521,002</u>	<u>23,365,184</u>	<u>2,257,667</u>	<u>3,659,040</u>	<u>84,418,080</u>	<u>108,420</u>
Total liabilities and net position	<u>\$ 13,016,133</u>	<u>\$ 65,872,401</u>	<u>\$ 35,006,145</u>	<u>\$ 2,460,348</u>	<u>\$ 10,148,224</u>	<u>\$ 126,503,251</u>	<u>\$ 155,697</u>

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
for the year ended June 30, 2014

	Business-Type Activities					Total	Internal Service Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Waterpark		
Operating Revenues							
Sales to customers	\$ 9,889,558	\$ 6,442,544	\$ 2,261,182	\$ 2,385,579	\$ 957,212	\$ 21,936,075	\$ -
Transportation/surcharges	1,654,758	76,205	33,746	-	-	1,764,709	-
Other operating revenues	1,147,251	1,339	74,310	3,988	53,464	1,280,352	-
Total operating revenues	<u>12,691,567</u>	<u>6,520,088</u>	<u>2,369,238</u>	<u>2,389,567</u>	<u>1,010,676</u>	<u>24,981,136</u>	<u>-</u>
Operating Expenses							
Gas purchases, net of refunds	6,283,836	-	-	-	-	6,283,836	-
Other operating expenses	2,056,616	2,900,264	1,785,231	2,110,498	1,340,591	10,193,200	366,187
Depreciation	442,207	919,052	688,432	88,842	716,952	2,855,485	2,152
Maintenance	552,519	386,171	357,845	120,160	149,283	1,565,978	19,393
Amortization	-	9,022	-	-	-	9,022	-
Total operating expenses	<u>9,335,178</u>	<u>4,214,509</u>	<u>2,831,508</u>	<u>2,319,500</u>	<u>2,206,826</u>	<u>20,907,521</u>	<u>387,732</u>
Operating income (loss)	<u>3,356,389</u>	<u>2,305,579</u>	<u>(462,270)</u>	<u>70,067</u>	<u>(1,196,150)</u>	<u>4,073,615</u>	<u>(387,732)</u>
Non-Operating Revenues (Expenses)							
Interest income	7,409	32,087	25,275	5,764	388	70,923	1,050
Interest expense	(30,353)	(517,657)	(167,339)	-	(64,604)	(779,953)	-
Gain (loss) on asset disposal	-	-	(10,960)	12,634	(300)	1,374	-
Total non-operating revenues (expenses)	<u>(22,944)</u>	<u>(485,570)</u>	<u>(153,024)</u>	<u>18,398</u>	<u>(64,516)</u>	<u>(707,656)</u>	<u>1,050</u>
Income (loss) before operating transfers and capital contributions	3,333,445	1,820,009	(615,294)	88,465	(1,260,666)	3,365,959	(386,682)
Operating Transfers							
Transfers in	-	-	-	-	688,300	688,300	398,700
Transfers out	(2,424,675)	(3,099,675)	(150,075)	(555,400)	-	(6,229,825)	-
Total operating transfers	<u>(2,424,675)</u>	<u>(3,099,675)</u>	<u>(150,075)</u>	<u>(555,400)</u>	<u>688,300</u>	<u>(5,541,525)</u>	<u>398,700</u>
Capital Contributions							
Federal grants	-	4,852,568	688,387	-	-	5,540,955	-
Total capital contributions	<u>-</u>	<u>4,852,568</u>	<u>688,387</u>	<u>-</u>	<u>-</u>	<u>5,540,955</u>	<u>-</u>
Increase (decrease) in net position	908,770	3,572,902	(76,982)	(466,935)	(572,366)	3,365,389	12,018
Net position, beginning of year, as restated	10,706,417	39,948,100	23,442,166	2,724,602	4,231,406	81,052,691	96,402
Net position, end of year	<u>\$ 11,615,187</u>	<u>\$ 43,521,002</u>	<u>\$ 23,365,184</u>	<u>\$ 2,257,667</u>	<u>\$ 3,659,040</u>	<u>\$ 84,418,080</u>	<u>\$ 108,420</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, 2014

	Business-Type Activities					Total	Internal Fund
	Gas Department	Water Department	Wastewater Department	Sanitation Department	Waterpark		
Cash Flows From Operating Activities							
Cash received from customers	\$ 11,550,913	\$ 5,338,559	\$ 1,596,693	\$ 2,349,746	\$ 960,867	\$ 21,796,778	\$ (7,622)
Cash payments to suppliers for goods and services	(9,447,276)	(1,108,710)	34,373	(1,378,722)	(832,613)	(12,732,948)	(95,847)
Cash payments to employees	(1,318,731)	(1,409,402)	(1,091,066)	(811,089)	(712,654)	(5,342,942)	(249,275)
Other operating revenues	1,147,251	1,339	74,310	3,988	53,464	1,280,352	-
Net cash provided by (used for) operating activities	1,932,157	2,821,786	614,310	163,923	(530,936)	5,001,240	(352,744)
Cash Flows From Non-Capital Financing Activities							
Transfers (to) from other funds	(2,424,675)	(3,099,675)	(150,075)	(555,400)	688,300	(5,541,525)	398,700
Net cash provided by (used for) noncapital financing activities	(2,424,675)	(3,099,675)	(150,075)	(555,400)	688,300	(5,541,525)	398,700
Cash Flows From Capital and Related Financing Activities							
Principal paid on bonds and notes	744	(497,598)	(309,804)	-	-	(806,658)	-
Interest paid on bonds and notes	(30,353)	(517,657)	(155,257)	-	(64,604)	(767,871)	-
Proceeds from issuance of debt	-	-	564,017	-	-	564,017	-
Acquisition and construction of capital assets	(424,784)	(4,113,073)	(1,957,285)	(392,720)	(36,109)	(6,923,971)	-
Contributed capital	-	4,852,568	688,387	-	-	5,540,955	-
Net cash used by capital and related financing activities	(454,393)	(275,760)	(1,169,942)	(392,720)	(100,713)	(2,393,528)	-
Cash Flows From Investing Activities							
Interest income	7,409	32,150	25,533	5,822	388	71,302	1,050
Net cash provided by investing activities	7,409	32,150	25,533	5,822	388	71,302	1,050
Net Increase (Decrease) in Cash							
Cash and cash equivalents, beginning of year	(939,502)	(521,499)	(680,174)	(778,375)	57,039	(2,862,511)	47,006
Cash and cash equivalents, end of year	3,614,100	5,310,578	1,642,945	1,622,745	119,613	12,309,981	81,033
Supplemental Disclosure of Balance Sheet Reconciliation							
Cash	\$ 2,674,598	\$ 841,740	\$ 739,530	\$ 844,370	\$ 176,652	\$ 5,276,890	\$ 128,039
Restricted cash	-	3,947,339	223,241	-	-	4,170,580	-
Cash and cash equivalents, end of year	\$ 2,674,598	\$ 4,789,079	\$ 962,771	\$ 844,370	\$ 176,652	\$ 9,447,470	\$ 128,039
Reconciliation of Operating Income							
Cash Provided by Operating Activities							
Operating income (loss)	\$ 3,356,389	\$ 2,305,579	\$ (462,270)	\$ 70,067	\$ (1,196,150)	\$ 4,073,615	\$ (387,732)
Adjustments to reconcile operating income to net cash provided by operating activities							
Depreciation	442,207	919,052	688,432	88,842	716,952	2,855,485	2,152
Amortization	-	9,022	-	-	-	9,022	-
(Increase) decrease in assets							
Accounts receivable	6,597	(1,180,190)	(698,235)	(35,833)	3,655	(1,904,006)	(7,622)
Inventory	63,083	35,660	1,865	-	9,927	110,535	-
Prepaid expenses	(10,822)	(14,251)	(8,594)	(8,915)	(14,429)	(57,011)	(2,679)
Due from other funds	(999,830)	(23,058)	450,157	(16,858)	(904)	(590,493)	41,685
Defeasance on refunding	-	2,826	-	-	-	2,826	-
Increase (decrease) in liabilities							
Accounts payable	(277,233)	704,302	458,507	17,747	(132,034)	771,289	(301)
Due to other funds	(668,057)	403,779	64,960	41,678	54,722	(102,918)	766
Other current liabilities	19,823	(340,935)	119,488	7,195	27,325	(167,104)	987
Net cash provided by operating activities	\$ 1,932,157	\$ 2,821,786	\$ 614,310	\$ 163,923	\$ (530,936)	\$ 5,001,240	\$ (352,744)
Supplemental Disclosure of Cash Flow Information							
Cash paid for interest	\$ 30,353	\$ 517,657	\$ 155,257	\$ -	\$ 64,604	\$ 767,871	\$ -

The accompanying notes are an integral part of the financial statements

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Somerset, Kentucky (the City), a city of the third class, 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 and component units 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 the Somerset Municipal Projects Corporation was included 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.

Downtown Somerset Development Corporation was evaluated and included as a discretely presented component unit due to the amount of grant funds received from the City of Somerset (85% of total revenues and transfers in 2014) and the fact that the Corporation serves the City of Somerset area, exclusively.

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 and its component unit. For the most part, the effect of inter-fund 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

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Government-Wide and Fund Financial Statements, Continued

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.

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, reserves, fund equity, 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, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Property taxes, insurance premium taxes, occupational taxes, franchise taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so 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 transfers. 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.

Special Revenue - The EMS Fund is used to account for the activities of the Somerset-Pulaski County Emergency Medical Services. The City of Somerset Common Council has the responsibility of approving all expenditures by the Somerset-Pulaski County Emergency Medical Service.

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.

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 Gas Fund also collects user charges for transporting gas for producers and various gas companies.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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.

Water Park Fund - The water park fund is used to account for the water park activities provided to residents and visitors of the area, the operation of which is financed by user charges.

Additionally, the City reports the following fund types:

Internal Service Fund - The internal service fund accounts for the billing and collection activities for water, wastewater, gas and sanitation services. The operation of the fund is financed by transfers from the other departments. This fund is reported with business-type activities in the government-wide financial statements.

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 and internal service fund 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

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

enterprise funds and internal service fund 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 constrained for a specific purpose by the City using its highest level of decision making authority.

Committed - amounts constrained for a specific purpose by the City using its highest level of decision making authority.

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 committed, the City issues an ordinance that can be changed with another corresponding ordinance.

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

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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Fund Balance, Continued

	General Fund	EMS Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Nonspendable:				
Inventory	\$ 15,053	\$ -	\$ 105,591	\$ 120,644
Prepaid expense	61,068	20,809	8,251	90,128
Restricted	-	-	205,549	205,549
Committed	2,630	-	376,420	379,050
Assigned	-	359,306	-	359,306
Unassigned	<u>1,307,648</u>	<u>-</u>	<u>(31)</u>	<u>1,307,617</u>
 Total fund balances	 <u>\$ 1,386,399</u>	 <u>\$ 380,115</u>	 <u>\$ 695,780</u>	 <u>\$ 2,462,294</u>

E. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

Cash and cash equivalents include cash on hand and demand deposits. Certificates of deposit include all certificates owned by the City. Cash and cash equivalents and certificates of deposits are stated at actual cost which approximates fair value. Kentucky Revised Statute 66.480 permits the City to invest in U.S. Treasury obligations, U.S. Agency obligations, certain Federal instruments, repurchase agreements, commercial banks' certificates of deposit, savings and loan deposits, Commonwealth of Kentucky investment pool and the Kentucky League of Cities investment pool.

2. 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."

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Assets, Liabilities and Net Position or Equity, Continued

3. Inventories

Inventories in the general and proprietary funds consist of expendable supplies held for consumption and inventory for concessions and retail sale in the water park fund stated on a first-in, first-out method. 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.

4. Accounts Receivable

Governmental activities accounts receivable consists of property taxes, occupational license fees, insurance premium taxes, 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.

5. 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 five thousand dollars. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Assets, Liabilities and Net Position or Equity, Continued

5. Capital Assets and Depreciation, continued

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:

<u>Description</u>	<u>Years</u>
Utility plant and distribution system	17 - 50
Buildings and improvements	10 - 50
Land improvements	10 - 20
Infrastructure	12 - 50
Water park attractions	15 - 20
Equipment	5 - 30
Office equipment	5 - 10
Vehicles	5 - 10

6. 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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Assets, Liabilities and Net Position or Equity, Concluded

7. Long-Term Debt and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums are capitalized and amortized over the terms of the related debt.

In the fund financial statements, governmental fund types recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

8. Encumbrances

Encumbrance accounting is used by the City whereby purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balances or retained earnings in the general, special revenue and enterprise funds, since the encumbrances do not constitute expenditures or liabilities, even though the City intends to honor those commitments.

F. 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 cash 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, 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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Other Accounting Policies

1. 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.

2. Cash and Cash Equivalents

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

3. 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.

4. Reclassifications

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on change in net position or fund balances as previously reported.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

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 at June 30, 2014 are as follows:

Carrying amount	\$	17,729,965
Bank balance	\$	19,993,292
FDIC Insurance	\$	2,416,172
Bank Deposit Guaranty Bond	\$	1,991,388
Uninsured and collateral held by the pledging financial institution’s trust department or agent and pledged to the City, but not in the depositor-government’s name	\$	15,240,548
Uninsured and uncollateralized	\$	345,184

Investments at June 30, 2014 were all certificates of deposit or money market accounts in local financial institutions.

3. ACCOUNTS RECEIVABLE

Receivables at June 30, 2014 for all funds of the City are as follows:

	Accounts	Taxes	Occupational License Fees	Franchise Fees	Grants	Other	Allowance for Doubtful Accounts	Total
General Fund	\$ -	\$ 46,255	\$ 154,099	\$ 524,885	\$ 16,059	\$ 94,932	\$ -	\$ 836,230
EMS Fund	2,313,209	-	-	-	-	-	(1,679,951)	633,258
Other Governmental	-	24,268	-	-	-	58,105	-	82,373
Internal Service	-	-	-	-	-	19,961	-	19,961
Gas Dept	572,525	-	-	-	-	-	(39,575)	532,950
Water Dept	639,410	-	-	-	1,141,015	-	(12,049)	1,768,376
Wastewater Dept	306,351	-	-	-	976,833	-	-	1,283,184
Sanitation Dept	291,828	-	-	-	-	-	(1,401)	290,427
Water Park Dept	359	-	-	-	-	-	-	359
Totals	<u>\$ 4,123,682</u>	<u>\$ 70,523</u>	<u>\$ 154,099</u>	<u>\$ 524,885</u>	<u>\$ 2,133,907</u>	<u>\$ 172,998</u>	<u>\$ (1,732,976)</u>	<u>\$ 5,447,118</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

4. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014 is as follows:

Interfund receivables and payables within governmental activities and business-type activities not eliminated for purposes of government-wide financial statements as of June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Gas Department	\$ 101,692
General Fund	Water Department	461,922
General Fund	Wastewater Department	135,966
General Fund	Sanitation Department	49,397
General Fund	Water Park Department	3,302,040
General Fund	Internal Service Fund	8,496
Fuel Center Fund	Gas Department	3,938
Fuel Center Fund	Water Department	3,258
Fuel Center Fund	Wastewater Department	4,522
Fuel Center Fund	Sanitation Department	7,198
Fuel Center Fund	Water Park Department	1,578
Water Park Department	Parks & Recreation	(504)
Gas Department	General Fund	(1,002,500)
Water Department	General Fund	(3,225,000)
Wastewater Department	General Fund	(250,217)
Sanitation Department	General Fund	(5,085)
Water Park Department	General Fund	<u>(400)</u>
Internal Balances, Net		<u>\$ (403,699)</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

4. INTERFUND RECEIVABLES AND PAYABLES, Continued

Interfund receivables and payables within governmental activities and business-type activities eliminated for purposes of government-wide financial statements as of June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Parks & Recreation	\$ 11,290
General Fund	EMS Fund	\$ 229,602
General Fund	Coal & Mineral Severance	\$ 52,401
General Fund	Cemetery Fund	\$ 322
General Fund	Fuel Center Fund	\$ 2,021
General Fund	Tourism & Travel	\$ 181
EMS Fund	General Fund	\$ 1,265
Municipal Aid Fund	General Fund	\$ -
Cemetery Fund	Parks & Recreation	\$ 1,500
Cemetery Fund	General Fund	\$ 1,029
Fuel Center Fund	General Fund	\$ 40,396
Fuel Center Fund	EMS Fund	\$ 23,283
Fuel Center Fund	Parks & Recreation	\$ 2,082
Coal & Mineral Severance	General Fund	\$ 9,838
Water Department	Water Park Department	\$ 1,300,000
Water Department	Wastewater Department	\$ 13,603
Wastewater Department	Water Department	\$ 2,194
Gas Department	Wastewater Department	\$ 628
Gas Department	Water Department	\$ 789
Gas Department	Water Park Department	\$ 77
Gas Department	Internal Service Fund	\$ 71
Sanitation	Internal Service Fund	\$ 255

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

5. CAPITAL ASSETS

A summary of changes in City's capital assets during the year ended June 30, 2014 is as follows:

	June 30, 2013	Additions/ Transfers	Disposals/ Transfers	June 30, 2014
Primary Government				
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated				
Land	\$ 1,436,544	\$ 213,274	\$ 159,875	\$ 1,489,943
Right of way and easements	8,800	-	-	8,800
Construction in progress	621,679	112,399	-	734,078
Capital Assets, Depreciated				
Infrastructure	25,756,546	7,014	-	25,763,560
Building and improvements	6,570,652	285,910	-	6,856,562
Vehicles	5,025,306	166,591	21,037	5,170,860
Equipment	2,018,910	156,068	-	2,174,978
Office equipment	785,823	26,222	-	812,045
Land improvements	491,298	-	-	491,298
Totals	<u>42,715,558</u>	<u>967,478</u>	<u>180,912</u>	<u>43,502,124</u>
Accumulated Depreciation				
Infrastructure	13,714,660	567,615	-	14,282,275
Buildings and Improvements	1,767,324	186,729	-	1,954,053
Vehicles	3,542,080	332,285	19,321	3,855,044
Equipment	1,412,319	137,716	-	1,550,035
Office Equipment	584,537	87,022	-	671,559
Land Improvements	351,803	15,979	-	367,782
Totals	<u>21,372,723</u>	<u>1,327,346</u>	<u>19,321</u>	<u>22,680,748</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 21,342,835</u>	<u>\$ (359,868)</u>	<u>\$ 161,591</u>	<u>\$ 20,821,376</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

5. CAPITAL ASSETS, Continued

	June 30, 2013	Additions/ Transfers	Disposals/ Transfers	June 30, 2014
<i>Business-Type Activities</i>				
Capital Assets, Not Depreciated				
Land	\$ 1,353,419	\$ -	\$ -	\$ 1,353,419
Right of way and easements	109,290	15,000	-	124,290
Construction in progress	36,750,155	736,595	35,893,641	1,593,109
Capital Assets, Depreciated				
Utility plant and distribution system	66,196,528	16,774,840	-	82,971,368
Buildings and improvements	26,108,539	25,056,019	-	51,164,558
Water park attractions	10,062,236	42,767	-	10,105,003
Vehicles	2,469,660	528,652	26,759	2,971,553
Equipment	2,757,425	104,001	59,470	2,801,956
Office equipment	952,781	-	-	952,781
Land improvements	784,316	23,342	-	807,658
Totals	<u>147,544,349</u>	<u>43,281,216</u>	<u>35,979,870</u>	<u>154,845,695</u>
Accumulated Depreciation				
Utility plant and distribution system	34,028,826	1,326,239	-	35,355,065
Buildings and improvements	9,642,921	652,303	-	10,295,224
Water park attractions	2,946,002	502,244	-	3,448,246
Vehicles	1,974,716	148,193	24,360	2,098,549
Equipment	2,016,708	140,300	28,210	2,128,798
Office equipment	456,113	37,133	-	493,246
Land improvements	339,440	51,225	-	390,665
Totals	<u>51,404,726</u>	<u>2,857,637</u>	<u>52,570</u>	<u>54,209,793</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 96,139,623</u>	<u>\$ 40,423,579</u>	<u>\$ 35,927,300</u>	<u>\$ 100,635,902</u>
Primary Government				
Capital Assets, Net	<u>\$117,482,458</u>	<u>\$ 40,063,711</u>	<u>\$ 36,088,891</u>	<u>\$ 121,457,278</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

5. CAPITAL ASSETS, Continued

	June 30, 2013	Additions/ Transfers	Disposals/ Transfers	June 30, 2014
<i>Component Unit</i>				
Capital Assets, Not Depreciated				
Land	\$ 71,000	\$ -	\$ -	\$ 71,000
Construction in Progress	236,880	-	5,808	231,072
Capital Assets, Depreciated				
Buildings and Improvements	273,879	18,942	-	292,821
Land Improvements	199,154	-	-	199,154
Equipment	98,440	4,049	-	102,489
Office Equipment	24,396	2,490	-	26,886
Totals	<u>903,749</u>	<u>25,481</u>	<u>5,808</u>	<u>923,422</u>
Accumulated Depreciation				
Buildings and Improvements	168,960	7,712	-	176,672
Land Improvements	126,744	7,573	-	134,317
Equipment	95,411	4,599	-	100,010
Office Equipment	19,520	1,003	-	20,523
Totals	<u>410,635</u>	<u>20,887</u>	<u>-</u>	<u>431,522</u>
Component Unit				
Capital Assets, Net	<u>\$ 493,114</u>	<u>\$ 4,594</u>	<u>\$ 5,808</u>	<u>\$ 491,900</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

5. CAPITAL ASSETS, Continued

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

Primary Government

Governmental Activities

Streets	\$ 590,122
Public Safety	285,852
General Government	186,225
Emergency Medical Services	155,886
Parks & Recreation	85,154
Fuel Center	20,881
Cemetery	2,784
Intergovernmental Programs	442
	<u>1,327,346</u>

Business-type Activities

Gas Department	442,207
Water Department	919,052
Wastewater Department	688,432
Water Park Department	716,952
Sanitation Department	88,842
Internal Service Fund	2,152
	<u>2,857,637</u>

Total Primary Government \$ 4,184,983

Component Unit \$ 20,887

No significant amounts of idle capital assets were noted at June 30, 2014.

6. SHORT-TERM DEBT TO BE REFINANCED

In May 2014, the wastewater department obtained interim construction financing from a local bank to help finance the Midtown Sanitary Sewer project. The City is drawing on the loan as the project progresses. During the fiscal year ended June 30, 2014, the City drew \$516,253 in funds with that same amount outstanding at June 30, 2014. The loan shall not exceed \$2,506,253. The loan will be refinanced on a long-term basis with a new debt issuance expected to occur in approximately April 2015.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2014:

<u>Description and Purpose</u>	<u>Balance June 30, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Primary Government					
<u>Governmental Activities</u>					
General Obligation Bonds					
Series 2010 with interest at 2.00% to 3.00%, maturing in fiscal year 2017	\$ 3,055,000	\$ -	\$ 830,000	\$ 2,225,000	\$ 850,000
Series 2011 with interest at 2.10% to 4.25%, maturing in fiscal year 2032	<u>4,976,785</u>	<u>-</u>	<u>-</u>	<u>4,976,785</u>	<u>-</u>
Total governmental activities	<u>8,031,785</u>	<u>-</u>	<u>830,000</u>	<u>7,201,785</u>	<u>850,000</u>
<u>Business-Type Activities</u>					
<u>Gas Department</u>					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	786,686	-	-	786,686	-
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	<u>-</u>	<u>33,750</u>	<u>665</u>	<u>33,085</u>	<u>1,409</u>
Total gas department	<u>786,686</u>	<u>33,750</u>	<u>665</u>	<u>819,771</u>	<u>1,409</u>
<u>Water Department</u>					
Series 2012 GO with interest at 2.00%, maturing in fiscal year 2019	2,200,000	-	345,000	1,855,000	355,000
Original issue premium	75,589	-	12,598	62,991	-
Series 2012A with interest at 2.125% maturing in fiscal year 2052	9,000,000	-	-	9,000,000	148,500
Series 2012B with interest at 2.125%, maturing in fiscal year 2052	5,000,000	-	-	5,000,000	82,500
Kentucky Rural Water note with interest at 2.15% to 4.525%, maturing in fiscal year 2036	<u>4,775,000</u>	<u>-</u>	<u>140,000</u>	<u>4,635,000</u>	<u>145,000</u>
Total water department	<u>21,050,589</u>	<u>-</u>	<u>497,598</u>	<u>20,552,991</u>	<u>731,000</u>
<u>Water Park Department</u>					
Series 2011 GO with interest at 2.1% to 4.25%, maturing in fiscal year 2032	<u>1,712,854</u>	<u>-</u>	<u>-</u>	<u>1,712,854</u>	<u>-</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

7. LONG-TERM DEBT, Continued

Description and Purpose	Balance June 30, 2013	Issued	Retired	Balance June 30, 2014	Due Within One Year
<i>Wastewater Department</i>					
KIA note with interest at 1.2%, maturing in fiscal year 2018	718,012	-	140,187	577,825	141,874
Series 2011 GO with interest at 2.10% to 4.25%, maturing in fiscal year 2032	1,333,675	-	-	1,333,675	-
KIA Revolving Loan with interest at 1%, maturing in fiscal year 2033	8,084,257	54,017	184,295	7,953,979	371,360
Note payable to City of Ferguson with interest at 2.0%, maturing in fiscal year 2034	-	382,179	7,527	374,652	15,952
Total wastewater department	<u>10,135,944</u>	<u>436,196</u>	<u>332,009</u>	<u>10,240,131</u>	<u>529,186</u>
Total business-type activities	<u>33,686,073</u>	<u>469,946</u>	<u>830,272</u>	<u>33,325,747</u>	<u>1,261,595</u>
Total primary government	<u>\$ 41,717,858</u>	<u>\$ 469,946</u>	<u>\$ 1,660,272</u>	<u>\$ 40,527,532</u>	<u>\$ 2,111,595</u>

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

General	\$ 4,976,785
Gas department	33,085
Waster Park department	1,712,854
Wastewater department	<u>1,333,675</u>
Total	<u>\$ 8,056,399</u>

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

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

7. LONG-TERM DEBT, Continued

the annual payment in excess of the amount to compensate for the asset transfer is considered a risk mitigation fee related to the gas system, and is recorded as an operating expense of the gas department; in fiscal year 2014, this amounted to \$33,958.

The annual debt service requirements to maturity for all long-term debt are as follows:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 850,000	\$ 227,736	\$ 1,077,736
2016	700,000	212,236	912,236
2017	355,600	201,612	557,212
2018	361,250	192,570	553,820
2019	373,425	181,550	554,975
2020 - 2024	1,491,600	761,965	2,253,565
2025 - 2029	1,796,700	455,958	2,252,658
2030 - 2032	1,273,210	82,783	1,355,993
	<u>\$ 7,201,785</u>	<u>\$ 2,316,410</u>	<u>\$ 9,518,195</u>

Year Ended June 30,	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 1,261,596	\$ 752,901	\$ 2,014,497
2016	1,287,876	730,444	2,018,320
2017	1,408,622	706,402	2,115,024
2018	1,439,884	680,395	2,120,279
2019	1,310,358	653,830	1,964,188
2020 - 2024	5,491,561	2,920,686	8,412,247
2025 - 2029	6,184,292	2,240,060	8,424,352
2030 - 2034	6,096,567	1,417,347	7,513,914
2035 - 2039	2,547,500	829,506	3,377,006
2040 - 2044	2,178,500	571,998	2,750,498
2045 - 2049	2,450,500	329,238	2,779,738
2050 - 2052	1,605,500	68,614	1,674,114
	<u>33,262,756</u>	<u>11,901,421</u>	<u>45,164,177</u>
Unamortized premium	<u>62,991</u>	<u>-</u>	<u>62,991</u>
	<u>\$ 33,325,747</u>	<u>\$ 11,901,421</u>	<u>\$ 45,227,168</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

7. LONG-TERM DEBT, Continued

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, 2014 required by the revenue bond ordinances are reported in the accompanying financial statements as reservations of retained earnings of the various utility funds. At June 30, 2014, the City had funds in restricted accounts in excess of the amount required by existing bond ordinances.

Interest expense of the governmental activities and business-type activities has been included as a direct function expense in the applicable function on the statement of activities.

8. PROPERTY TAX CALENDAR

Property taxes for fiscal year 2014 were levied in September, 2013 on the assessed valuation of property located in Pulaski County as of the preceding January 1, the lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

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

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

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

9. RETIREMENT PLAN

The City is a participating employer in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in hazardous and non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members. Cost of living adjustments are provided at the discretion of the state legislature.

CERS issues a publicly available financial report included in the Kentucky Retirement System's Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646.

Funding for CERS is provided by hazardous duty and non-hazardous duty members who contribute through payroll deductions and by employers of members. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

The contributions to CERS equaled the required contribution for each year. The contributions by the City and its employees for a three year period are as follows:

	Year Ended June 30,		
	2014	2013	2012
Employee Hazardous Percentage	8.00%	8.00%	8.00%
Employer Hazardous Percentage	35.70%	37.60%	35.76%
Employee Non-Hazardous Percentage	5.00%	5.00%	5.00%
Employer Non-Hazardous Percentage	18.89%	19.55%	18.96%
Employee & Employer Contributions	<u>\$ 3,489,873</u>	<u>\$ 3,512,489</u>	<u>\$ 2,314,200</u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

10. TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Parks & Recreation	General operations	\$ 1,238,940
General	Fuel Center	General operations	\$ 400,000
General	Travel & Tourism	General operations	\$ 200
General	Cemetery	General operations	\$ 38,450
General	Water Park	General operations	\$ 232,575
EMS	General	Indirect cost reimbursement	\$ 25,000
Gas	General	General operations	\$ 1,375,000
Gas	General	General operations	\$ 900,000
Gas	General	Indirect cost reimbursement	\$ 50,000
Gas	Internal Service	General operations	\$ 99,675
Water	General	General operations	\$ 2,000,000
Water	General	General operations	\$ 950,000
Water	General	Indirect cost reimbursement	\$ 50,000
Water	Internal Service	General operations	\$ 99,675
Wastewater	Parks & Recreation	General operations	\$ -
Wastewater	General	Indirect cost reimbursement	\$ 50,000
Wastewater	Internal Service	General operations	\$ 99,675
Sanitation	Internal Service	General operations	\$ 99,675
Sanitation	Water Park	General operations	\$ 455,725

11. INDUSTRIAL REVENUE BONDS

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.

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

12. 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 believes 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.

The City continues to be involved in legal litigation regarding a natural gas contract. The local circuit judge is expected to render a decision on preliminary motions but resolution of the dispute has not taken place. The City's potential liability is not estimable at this time.

13. RISK MANAGEMENT

The City is exposed to various form 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.

14. CONSTRUCTION PROJECTS

The Wastewater Department began the Midtown Sanitary Sewer Upgrades project during the year ended June 30, 2014. The estimated cost of the project is \$2.5 million which will be funded with a \$1.8 million EDA Grant and local funds. The project was approximately 40% complete at year end.

15. RESTATEMENT OF FUND BALANCE

The beginning fund balance of the EMS Fund has been restated on the fund basis financial statements to record a prior period adjustment to correct an error related to accounts receivable from an intergovernmental revenue source. A reconciliation of the prior period ending fund balance to the current year beginning fund balance for the EMS Fund is as follows:

Fund balance, beginning of year	\$ (2,909)
Adjustment to correct accounts receivable	<u>550,000</u>
Fund balance, beginning of year, as restated	<u><u>\$ 547,091</u></u>

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

15. RESTATEMENT OF FUND BALANCE, continued

Additionally, the beginning net position of the governmental activities in the government-wide Statement of Net Position has been restated to adjust for the error identified above. A reconciliation of the prior period ending net position to the current year beginning net position for the governmental activities as follows:

Fund balance, beginning of year	\$	16,676,746
Adjustment to correct accounts receivable		550,000
Fund balance, beginning of year, as restated	\$	17,226,746

16. RESTATEMENT OF NET POSITION

The beginning net position of the Waterpark has been restated to record a prior period adjustment prepaid expenses previously expensed. A reconciliation of the prior period ending net position to the current year beginning net position for the Waterpark is as follows:

Net position, beginning of year	\$	4,201,406
Prepaid expenses		30,000
Net position, beginning of year, as restated	\$	4,231,406

Implementation of New Accounting Standard GASB Statement No. 65

Effective July 1, 2013, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the City reported debt issuance costs, including costs related to bond issuance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. Under GASB Statement No. 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position, as follows:

<u>Water Department</u>		
Net position, beginning of year	\$	40,135,570
Bond issuance costs		(187,470)
Net position, beginning of year, as restated	\$	39,948,100

City of Somerset, Kentucky
Notes to Financial Statements
June 30, 2014

17. SUBSEQUENT EVENTS

The City has evaluated and considered the need to recognize or disclose subsequent events through March 7th, 2015, 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, 2014, have not been evaluated by the City.

Financial Reporting for Pension Plans

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, Financial Reporting for Pension Plans, addresses financial reporting for state and local government pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plans in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The City is currently evaluating the effects of this statement on its financial statements. The City's potential unfunded liability, based on June 30, 2014 plan financial statements, is estimated to be \$28,500,000 for the County Employers Retirement Plan. The actual liability for June 30, 2015 could be considerably different due to changes in system assumptions and liabilities.

REQUIRED SUPPLEMENTAL INFORMATION

City of Somerset, Kentucky
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget to Actual
General Fund
for the year ended June 30, 2014

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues					
Taxes	\$ 1,325,000	\$ -	\$ 1,325,000	\$ 1,321,861	\$ (3,139)
Licenses and permits	4,588,000	-	4,588,000	5,019,626	431,626
Fines and forfeits	7,000	-	7,000	5,774	(1,226)
Charges for services	-	-	-	-	-
Intergovernmental revenues	445,700	-	445,700	335,695	(110,005)
Interest income	25,000	-	25,000	14,328	(10,672)
Other revenues	<u>188,800</u>	<u>-</u>	<u>188,800</u>	<u>226,000</u>	<u>37,200</u>
Total revenues	<u>6,579,500</u>	<u>-</u>	<u>6,579,500</u>	<u>6,923,284</u>	<u>343,784</u>
Expenditures					
Current					
General government	2,915,900	385,000	3,300,900	3,399,681	98,781
Public safety	5,909,200	325,000	6,234,200	5,648,146	(586,054)
Public services	285,825	30,000	315,825	338,905	23,080
Streets	854,500	-	854,500	750,856	(103,644)
Downtown revitalization	190,292	-	190,292	190,291	(1)
Intergovernmental programs	147,700	-	147,700	148,615	915
Capital outlay	513,500	440,000	953,500	652,184	(301,316)
Debt service					
Principal	830,000	345,000	1,175,000	830,000	(345,000)
Interest	<u>165,000</u>	<u>270,000</u>	<u>435,000</u>	<u>244,536</u>	<u>(190,464)</u>
Total expenditures	<u>11,811,917</u>	<u>1,795,000</u>	<u>13,606,917</u>	<u>12,203,214</u>	<u>(1,403,703)</u>
Excess of revenues over (under) expenditures	<u>(5,232,417)</u>	<u>(1,795,000)</u>	<u>(7,027,417)</u>	<u>(5,279,930)</u>	<u>1,747,487</u>
Other Financing Sources (Uses)					
Proceed from sale of assets	-	-	-	157,595	157,595
Transfer from other funds	5,525,000	-	5,525,000	5,400,000	(125,000)
Transfer to other funds	<u>(1,036,575)</u>	<u>(978,390)</u>	<u>(2,014,965)</u>	<u>(1,910,165)</u>	<u>104,800</u>
Total other financing sources (uses)	<u>4,488,425</u>	<u>(978,390)</u>	<u>3,510,035</u>	<u>3,647,430</u>	<u>137,395</u>
Net change in fund balances	(743,992)	(2,773,390)	(3,517,382)	(1,632,500)	1,884,882
Fund balances, beginning of year	<u>3,018,899</u>	<u>-</u>	<u>3,018,899</u>	<u>3,018,899</u>	<u>-</u>
Fund balances, end of year	<u>\$ 2,274,907</u>	<u>\$ (2,773,390)</u>	<u>\$ (498,483)</u>	<u>\$ 1,386,399</u>	<u>\$ 1,884,882</u>

City of Somerset, Kentucky
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget to Actual
EMS Fund
for the year ended June 30, 2014

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues					
Charges for services	\$ 2,675,000	\$ -	\$ 2,675,000	\$ 3,028,918	\$ 353,918
Intergovernmental revenues	1,968,200	-	1,968,200	1,437,672	(530,528)
Interest income	400	-	400	648	248
Other revenues	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>16,236</u>	<u>(13,764)</u>
Total revenues	<u>4,673,600</u>	<u>-</u>	<u>4,673,600</u>	<u>4,483,474</u>	<u>(190,126)</u>
Expenditures					
Current					
Emergency medical services	4,518,600	-	4,518,600	4,625,450	106,850
Capital outlay	<u>160,000</u>	<u>-</u>	<u>160,000</u>	<u>-</u>	<u>(160,000)</u>
Total expenditures	<u>4,678,600</u>	<u>-</u>	<u>4,678,600</u>	<u>4,625,450</u>	<u>(53,150)</u>
Excess of revenues over (under) expenditures	(5,000)	-	(5,000)	(141,976)	(136,976)
Other Financing Sources (Uses)					
Transfer from other funds	-	-	-	-	-
Transfer to other funds	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net other financing sources (uses)	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net change in fund balances	(30,000)	-	(30,000)	(166,976)	(136,976)
Fund balances, beginning of year, restated	<u>547,091</u>	<u>-</u>	<u>547,091</u>	<u>547,091</u>	<u>-</u>
Fund balances, end of year	<u>\$ 517,091</u>	<u>\$ -</u>	<u>\$ 517,091</u>	<u>\$ 380,115</u>	<u>\$ (136,976)</u>

SUPPLEMENTAL INFORMATION

City of Somerset, Kentucky
Combining Balance Sheet
Other Governmental Funds
June 30, 2014

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Fuel Center Fund	Travel & Tourism Fund	Total
Assets							
Cash and cash equivalents	\$ 12,853	\$ 11,349	\$ 5,127	\$ 369,406	\$ 38,859	\$ 145,833	\$ 583,427
Restricted cash	-	-	-	-	-	-	-
Accounts receivable, net	23,257	57	11,471	9,650	13,670	24,268	82,373
Inventory	-	1,934	-	-	103,657	-	105,591
Prepaid Expenses	-	7,394	-	-	857	-	8,251
Due from other funds	-	1,500	9,838	1,029	86,254	-	98,621
	<u>-</u>	<u>1,500</u>	<u>9,838</u>	<u>1,029</u>	<u>86,254</u>	<u>-</u>	<u>98,621</u>
 Total assets	 <u>\$ 36,110</u>	 <u>\$ 22,234</u>	 <u>\$ 26,436</u>	 <u>\$ 380,085</u>	 <u>\$ 243,297</u>	 <u>\$ 170,101</u>	 <u>\$ 878,263</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 26,273	\$ -	\$ 1,345	\$ 44,412	\$ 481	\$ 72,511
Due to other funds	-	13,875	52,401	2,320	2,021	181	70,798
Other current liabilities	-	35,526	-	-	3,648	-	39,174
	<u>-</u>	<u>35,526</u>	<u>-</u>	<u>-</u>	<u>3,648</u>	<u>-</u>	<u>39,174</u>
 Total liabilities	 <u>-</u>	 <u>75,674</u>	 <u>52,401</u>	 <u>3,665</u>	 <u>50,081</u>	 <u>662</u>	 <u>182,483</u>
 Fund Balances							
Nonspendable	-	9,328	-	-	104,514	-	113,842
Restricted	36,110	-	-	-	-	169,439	205,549
Committed	-	-	-	376,420	-	-	376,420
Assigned	-	-	-	-	-	-	-
Unassigned	-	(62,768)	(25,965)	-	88,702	-	(31)
	<u>-</u>	<u>(62,768)</u>	<u>(25,965)</u>	<u>-</u>	<u>88,702</u>	<u>-</u>	<u>(31)</u>
 Total fund balances	 <u>36,110</u>	 <u>(53,440)</u>	 <u>(25,965)</u>	 <u>376,420</u>	 <u>193,216</u>	 <u>169,439</u>	 <u>695,780</u>
 Total liabilities and fund balances	 <u>\$ 36,110</u>	 <u>\$ 22,234</u>	 <u>\$ 26,436</u>	 <u>\$ 380,085</u>	 <u>\$ 243,297</u>	 <u>\$ 170,101</u>	 <u>\$ 878,263</u>

City of Somerset, Kentucky
Statement of Revenues and Expenditures and
Changes in Fund Balances - Other Governmental Funds
for the year ended June 30, 2014

	Municipal Aid Projects Fund	Parks & Recreation Fund	Coal & Mineral Severance Fund	Cemetery Fund	Fuel Center Fund	Travel & Tourism Fund	Total
Revenues							
Charges for services	\$ -	\$ 149,740	\$ -	\$ 41,250	\$ 29,634	\$ -	\$ 220,624
Intergovernmental revenues	259,073	-	48,930	-	-	227,020	535,023
Interest income	372	172	136	1,828	267	-	2,775
Other revenues	-	24,809	-	903	-	287	25,999
Total revenues	<u>259,445</u>	<u>174,721</u>	<u>49,066</u>	<u>43,981</u>	<u>29,901</u>	<u>227,307</u>	<u>784,421</u>
Expenditures							
Current							
Streets	153,719	-	-	-	-	-	153,719
Parks and recreation	-	1,232,753	-	-	-	-	1,232,753
Cemetery	-	-	-	64,725	-	-	64,725
Fuel Center	-	-	-	-	238,332	-	238,332
Economic development	-	-	95,159	-	-	-	95,159
Travel and tourism	-	-	-	-	-	58,068	58,068
Capital outlay	-	189,587	-	-	124,403	-	313,990
Total expenditures	<u>153,719</u>	<u>1,422,340</u>	<u>95,159</u>	<u>64,725</u>	<u>362,735</u>	<u>58,068</u>	<u>2,156,746</u>
Excess (deficiency) of revenues over expenditures	105,726	(1,247,619)	(46,093)	(20,744)	(332,834)	169,239	(1,372,325)
Other Financing Sources (Uses)							
Proceeds from sale of assets	-	450	-	-	-	-	450
Transfer from other funds	-	1,238,940	-	38,450	400,000	200	1,677,590
Transfer to other funds	-	-	-	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>1,239,390</u>	<u>-</u>	<u>38,450</u>	<u>400,000</u>	<u>200</u>	<u>1,678,040</u>
Net change in fund balances	105,726	(8,229)	(46,093)	17,706	67,166	169,439	305,715
Fund balances, beginning of year	<u>(69,616)</u>	<u>(45,211)</u>	<u>20,128</u>	<u>358,714</u>	<u>126,050</u>	<u>-</u>	<u>390,065</u>
Fund balances, end of year	<u>\$ 36,110</u>	<u>\$ (53,440)</u>	<u>\$ (25,965)</u>	<u>\$ 376,420</u>	<u>\$ 193,216</u>	<u>\$ 169,439</u>	<u>\$ 695,780</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Gas Department
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues			
Sales to customers	\$ 10,505,000	\$ 9,889,558	\$ (615,442)
Transportation/surcharges	1,925,000	1,654,758	(270,242)
Other operating revenues	<u>488,000</u>	<u>1,147,251</u>	<u>659,251</u>
Total operating revenues	<u>12,918,000</u>	<u>12,691,567</u>	<u>(226,433)</u>
Operating Expenses			
Gas purchases, net of refunds	7,000,000	6,283,836	(716,164)
Maintenance	1,575,325	552,519	(1,022,806)
Other operating expenses			
Personal services	1,263,500	1,315,156	51,656
Supplies	121,000	87,248	(33,752)
Utilities	58,000	58,401	401
Insurance	60,000	63,969	3,969
Engineering	290,000	55,763	(234,237)
Severance tax	10,000	5,650	(4,350)
Contract compression	280,000	304,568	24,568
Other	317,000	165,861	(151,139)
Depreciation	<u>-</u>	<u>442,207</u>	<u>442,207</u>
Total operating expenses	<u>10,974,825</u>	<u>9,335,178</u>	<u>(1,639,647)</u>
Operating income (loss)	<u>1,943,175</u>	<u>3,356,389</u>	<u>1,413,214</u>
Non-Operating Revenues (Expenses)			
Interest income	6,500	7,409	909
Interest expense	-	(30,353)	(30,353)
Gain (Loss) on asset disposal	<u>-</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>6,500</u>	<u>(22,944)</u>	<u>(29,444)</u>
Income (loss) before operating transfers	<u>1,949,675</u>	<u>3,333,445</u>	<u>1,383,770</u>
Operating Transfers			
Transfers in	-	-	-
Transfers out	<u>(2,549,675)</u>	<u>(2,424,675)</u>	<u>125,000</u>
Total operating transfers	<u>(2,549,675)</u>	<u>(2,424,675)</u>	<u>125,000</u>
Increase (decrease) in net position	<u>\$ (600,000)</u>	<u>\$ 908,770</u>	<u>\$ 1,508,770</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Water Department
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues			
Sales to customers	\$ 7,095,000	\$ 6,442,544	\$ (652,456)
Transportation/surcharges	60,000	76,205	16,205
Other operating revenues	1,000	1,339	339
Total operating revenues	<u>7,156,000</u>	<u>6,520,088</u>	<u>(635,912)</u>
Operating Expenses			
Maintenance	10,787,625	386,171	(10,401,454)
Other operating expenses			
Personal services	1,433,500	1,417,616	(15,884)
Supplies	584,000	467,506	(116,494)
Utilities	664,000	819,202	155,202
Insurance	80,000	74,418	(5,582)
Engineering	65,000	30,993	(34,007)
Other	78,700	90,529	11,829
Amortization	-	9,022	9,022
Depreciation	-	919,052	919,052
Total operating expenses	<u>13,692,825</u>	<u>4,214,509</u>	<u>(9,478,316)</u>
Operating income (loss)	<u>(6,536,825)</u>	<u>2,305,579</u>	<u>8,842,404</u>
Non-Operating Revenues (Expenses)			
Interest income	60,000	32,087	(27,913)
Interest expense	(423,500)	(517,657)	(94,157)
Gain (Loss) on asset disposal	-	-	-
Total non-operating revenues (expenses)	<u>(363,500)</u>	<u>(485,570)</u>	<u>(122,070)</u>
Income (loss) before operating transfers and capital contributions	<u>(6,900,325)</u>	<u>1,820,009</u>	<u>8,720,334</u>
Operating Transfers			
Transfers in	-	-	-
Transfers out	(3,099,675)	(3,099,675)	-
Total operating transfers	<u>(3,099,675)</u>	<u>(3,099,675)</u>	<u>-</u>
Capital Contributions			
Federal grants	10,000,000	4,852,568	(5,147,432)
Total capital contributions	<u>10,000,000</u>	<u>4,852,568</u>	<u>(5,147,432)</u>
Increase (decrease) in net position	<u>\$ -</u>	<u>\$ 3,572,902</u>	<u>\$ 3,572,902</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Wastewater Department
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues			
Sales to customers	\$ 2,525,000	\$ 2,261,182	\$ (263,818)
Transportation/surcharges	20,000	33,746	13,746
Other operating revenues	14,800	74,310	59,510
Total operating revenues	<u>2,559,800</u>	<u>2,369,238</u>	<u>(190,562)</u>
Operating Expenses			
Maintenance	1,907,000	357,845	(1,549,155)
Other operating expenses			
Personal services	1,227,500	1,089,075	(138,425)
Supplies	22,500	14,062	(8,438)
Utilities	346,000	355,938	9,938
Insurance	40,000	48,105	8,105
Engineering	45,000	53,895	8,895
Treatment	110,000	104,263	(5,737)
Other	122,000	119,893	(2,107)
Depreciation	-	688,432	688,432
Total operating expenses	<u>3,820,000</u>	<u>2,831,508</u>	<u>(988,492)</u>
Operating income (loss)	<u>(1,260,200)</u>	<u>(462,270)</u>	<u>797,930</u>
Non-Operating Revenues (Expenses)			
Interest income	50,000	25,275	(24,725)
Interest expense	(179,500)	(167,339)	12,161
Gain (Loss) on asset disposal	-	(10,960)	(10,960)
Total non-operating revenues (expenses)	<u>(129,500)</u>	<u>(153,024)</u>	<u>(23,524)</u>
Income (loss) before operating transfers and capital contributions	<u>(1,389,700)</u>	<u>(615,294)</u>	<u>774,406</u>
Operating Transfers			
Transfers in	-	-	-
Transfers out	(149,675)	(150,075)	(400)
Total operating transfers	<u>(149,675)</u>	<u>(150,075)</u>	<u>(400)</u>
Capital Contributions			
Federal grants	3,300,000	688,387	(2,611,613)
State/Local	-	-	-
Total capital contributions	<u>3,300,000</u>	<u>688,387</u>	<u>(2,611,613)</u>
Increase (decrease) in net position	<u>\$ 1,760,625</u>	<u>\$ (76,982)</u>	<u>\$ (1,837,607)</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Sanitation Department
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues			
Sales to customers	\$ 2,350,000	\$ 2,385,579	\$ 35,579
Other operating revenues	-	3,988	3,988
Total operating revenues	<u>2,350,000</u>	<u>2,389,567</u>	<u>39,567</u>
Operating Expenses			
Maintenance	170,900	120,160	(50,740)
Other operating expenses			
Personal services	765,900	818,285	52,385
Supplies	312,000	306,179	(5,821)
Utilities	7,000	7,880	880
Insurance	37,000	45,918	8,918
Landfill	900,000	909,016	9,016
Other	11,800	23,220	11,420
Depreciation	-	88,842	88,842
Total operating expenses	<u>2,204,600</u>	<u>2,319,500</u>	<u>114,900</u>
Operating income (loss)	<u>145,400</u>	<u>70,067</u>	<u>(75,333)</u>
Non-Operating Revenues (Expenses)			
Interest income	10,000	5,764	(4,236)
Interest expense	-	-	-
Gain (Loss) on asset disposal	-	12,634	12,634
Total non-operating revenues (expenses)	<u>10,000</u>	<u>18,398</u>	<u>8,398</u>
Income (loss) before operating transfers	<u>155,400</u>	<u>88,465</u>	<u>(66,935)</u>
Operating Transfers			
Transfers in	-	-	-
Transfers out	<u>(555,400)</u>	<u>(555,400)</u>	<u>-</u>
Total operating transfers	<u>(555,400)</u>	<u>(555,400)</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ (400,000)</u>	<u>\$ (466,935)</u>	<u>\$ (66,935)</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Waterpark
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues			
Sales to customers	\$ 1,037,000	\$ 957,212	\$ (79,788)
Other operating revenues	<u>132,575</u>	<u>53,464</u>	<u>(79,111)</u>
Total operating revenues	<u>1,169,575</u>	<u>1,010,676</u>	<u>(158,899)</u>
Operating Expenses			
Maintenance	313,000	149,283	(163,717)
Other operating expenses			
Personal services	615,350	736,604	121,254
Supplies	295,000	269,991	(25,009)
Utilities	130,000	124,658	(5,342)
Insurance	25,000	26,408	1,408
Other	147,200	182,930	35,730
Depreciation	<u>-</u>	<u>716,952</u>	<u>716,952</u>
Total operating expenses	<u>1,525,550</u>	<u>2,206,826</u>	<u>681,276</u>
Operating income (loss)	<u>(355,975)</u>	<u>(1,196,150)</u>	<u>(840,175)</u>
Non-Operating Revenues (Expenses)			
Interest income	250	388	138
Interest expense	-	(64,604)	(64,604)
Gain (Loss) on asset disposal	<u>-</u>	<u>(300)</u>	<u>(300)</u>
Total non-operating revenues (expenses)	<u>250</u>	<u>(64,516)</u>	<u>(64,766)</u>
Income (loss) before operating transfers	<u>(355,725)</u>	<u>(1,260,666)</u>	<u>(904,941)</u>
Operating Transfers			
Transfers in	355,725	688,300	332,575
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total operating transfers	<u>355,725</u>	<u>688,300</u>	<u>332,575</u>
Increase (decrease) in net position	<u>\$ -</u>	<u>\$ (572,366)</u>	<u>\$ (572,366)</u>

City of Somerset, Kentucky
Statement of Revenues and Expenses
Budget to Actual
Internal Service Fund
for the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Expenses			
Maintenance	\$ 11,000	\$ 19,393	\$ 8,393
Other operating expenses			
Personal services	264,700	250,236	(14,464)
Postage	70,000	61,755	(8,245)
Other	54,000	54,196	196
Depreciation	-	2,152	2,152
Total operating expenses	<u>399,700</u>	<u>387,732</u>	<u>(11,968)</u>
Operating income (loss)	<u>(399,700)</u>	<u>(387,732)</u>	<u>(11,968)</u>
Non-Operating Revenues (Expenses)			
Interest income	<u>1,000</u>	<u>1,050</u>	<u>50</u>
Total non-operating revenues (expenses)	<u>1,000</u>	<u>1,050</u>	<u>50</u>
Income (loss) before operating transfers	(398,700)	(386,682)	11,918
Operating Transfers			
Transfers in	398,700	398,700	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total operating transfers	<u>398,700</u>	<u>398,700</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ -</u>	<u>\$ 12,018</u>	<u>\$ 11,918</u>

City of Somerset, Kentucky
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
Department of Justice			
Passed through Commonwealth of Kentucky Justice Cabinet Crime Victim Assistance Program Fiscal year 2013	16.575	\$32,000	\$ 2,536
Law Enforcement Service Fee Grant Fiscal year 2014	16.579	\$16,372	11,225
Edward Byrne Memorial Justice Assistance Grant Program Fiscal year 2014	16.738	\$7,459	7,459
Passed through Operation Unite, Inc. Harold Rogers Prescription Drug Monitoring Program	16.754		<u>85,125</u>
Total U.S. Department of Justice			<u>106,345</u>
Department of Agriculture			
Water and Waste Disposal Systems for Rural Communities - ARRA	10.781	\$6,000,000	<u>4,852,568</u>
Total Department of Agriculture			<u>4,852,568</u>
Department of Commerce			
Investments for Public Works and Economic Development Facilities	11.300	\$1,800,000	<u>688,387</u>
Total Department of Commerce			<u>688,387</u>
Department of Transportation			
Federal Highway Administration Passed through Kentucky Transportation Cabinet Highway Safety	20.600	\$30,000	4,517
		\$30,500	<u>17,739</u>
Total Department of Transportation			<u>22,256</u>
Total Expenditure of Federal Awards			<u>\$ 5,669,556</u>

Note: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Somerset and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Ray, Foley, Hensley & Company, PLLC

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Somerset, Kentucky, as of and for the year ended June 30, 2014, 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 March 7, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2014-001).

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.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

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

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 one instance of noncompliance or other matters that are required to be reported under **Government Auditing Standards**, which is described in the accompanying schedule of findings and questioned costs (2014-002).

City of Somerset, Kentucky's Response to Findings

The City of Somerset, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Somerset, Kentucky's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

This communication is intended solely for the information and use of management, City Council, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC

March 7, 2015



Ray, Foley, Hensley & Company, PLLC

Certified Public Accountants and Consultants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 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, 2014. The City of Somerset, Kentucky's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Somerset, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

230 Lexington Green Circle, Suite 600 • Lexington, Kentucky 40503-3326

Phone: 859-231-1800 • Fax: 859-422-1800 • Toll-Free: 1-800-342-7299

www.rfhco.com

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133
(CONTINUED)**

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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 7, 2015

**CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2014**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes No

Non-compliance material to financial statements noted Yes No

Federal Awards:

Internal control over major programs:

Material weaknesses identified Yes No

Significant deficiencies identified that are not
considered to be material weaknesses Yes No

Type of auditors' 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 Section 510(a) of Circular A-133? Yes No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.781	Water and Waste Disposal Systems for Rural Communities – ARRA
11.300	Investments for Public Works and Economic Development Facilities

Dollar threshold used to distinguish between type A
and type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? Yes No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

#2014-001 – Financial Reporting

Condition:

The City is required to have internal controls in place that enable the preparation of reasonably stated financial statements, including note disclosures, in compliance with generally accepted accounting principles. This is an ongoing finding.

Criteria:

The City employs the use of an outside consultant to assist in making necessary year-end adjustments and prepare the financial statements. This closing process is not closely monitored by City management. As a result, the closing process is delayed and material errors are not identified.

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2014

#2014-001 – Financial Reporting

Cause:

The City does not have personnel in place to handle the year-end financial reporting process. As a result, the City relies heavily on outside assistance which causes a delay in year-end close. Furthermore, the consultant works outside of the City's financial reporting system. This makes it difficult for management to properly review and approve proposed adjustments.

Effect:

The City's financial statement audit was delayed for the fiscal year ended June 30, 2014 and material adjustments were necessary to reasonably state the financials.

Recommendation:

We recommend management design control policies and procedures to ensure the year end adjustments and annual financial reporting occur in a more timely fashion and this process is more closely monitored by management.

Response:

The City will implement policies and procedures to ensure the year end adjustments and annual financial reporting are timely and reviewed and approved by management.

#2014-002 – Compliance

Condition:

During the fiscal year, the City began work on an amphitheater project in the parks and recreation department. The costs associated with this project were mainly comprised of excavation and concrete work. While the City obtained bids for the concrete costs, they failed to follow the appropriate procurement procedures regarding bid compliance in relation to the excavation costs, which exceeded the threshold for advertising for bids.

Criteria:

As described in Kentucky Revised Statute 424.260, the City is required to advertise for bids involving an expenditure of more than \$20,000 before entering into a contract.

Cause:

The excavation costs related to this project were initially estimated to be less than the bid requirement; however, excavation costs were substantially more than expected. By the time that the additional cost was communicated to management, the bid threshold had been exceeded.

Effect:

The City failed to properly comply with KRS 424.260.

Recommendation:

We recommend that all projects with a cost greater than \$20,000 be advertised for bids as required by KRS 424.260.

Response:

In regards to the Rocky Hollow Amphitheater project, the intentions of the City were based on plans to construct a very basic amphitheater type terracing in the already established Rocky Hollow Park. The simple plans the City began with indicated that the project could be accomplished while remaining well within the monetary amounts exempt from bidding requirements under the Model Procurement Code, which the City adopted several years ago.

CITY OF SOMERSET, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2014

#2014-002 – Compliance

Response, continued:

Although the labor was never planned to exceed the set amounts, out of caution and in deference to our procurement policies, we did make the determination in the beginning stages of the project to bid the materials which were to be used on the project because we reasonably anticipated that said materials could exceed the \$20,000 mark set in our policies. However, once the project started, the City encountered unforeseen circumstances, mainly a great deal of bed rock, which had to be removed and/or reworked in order to continue and complete the project within the time limits we had planned from the beginning. Because of these unforeseen circumstances with the labor needed to complete the project, we realized that we had underestimated the costs of the labor once the project took off. We realize and accept that we must do a more efficient job in the future and use a higher level of care when determining the cost of labor on such a project. Therefore, upon direction of the Mayor, all department heads and project managers will be cautioned about how to handle a situation when costs begin to unexpectedly escalate so that the Mayor and the City's officials can make a better effort to enforce the provisions adopted by the City in both our own procurement policies, as well as those set forth in the Model Procurement Code.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR YEAR FINDINGS

NONE