

CITY OF SOUTHGATE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2015

CITY OF SOUTHGATE, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

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CITY OF SOUTHGATE, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2015

Mayor

Jim Hamberg

Council Members

Joe Anderson

James Enzweiler

Pat Hayley

Sue Payne

Chris Robisch

Dan Speier

Independent Auditor's Report

**To the Honorable Mayor and
Members of the Council
City of Southgate, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Southgate, Kentucky, as of and for the year ended June 30, 2015, 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.

-Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Southgate, Kentucky as of June 30, 2015 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8, the budgetary comparison schedule on page 30, and the pension disclosure on page 31 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.

-Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major governmental funds schedules and the budgetary comparison schedules of the non-major governmental funds on pages 32-35 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2015 on our consideration of City of Southgate, 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 City of Southgate, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
December 9, 2015

**CITY OF SOUTHGATE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Our discussion and analysis of City of Southgate, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the City's basic financial statements.

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. For governmental activities, these 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 financially significant funds.

Financial Highlights

As of the close of the current and prior fiscal years, the City's governmental funds reported fund balances as follows:

Funds	FYE 2014 Amount	FYE 2015 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 14
General	\$ 341,606	\$ 482,838	41.34%	\$ 141,232
Municipal Road Aid	74,560	42,124	-43.50%	(32,436)
Community Center	5,732	(4,434)	-177.36%	(10,166)
Total Fund Balance	\$ 421,898	\$ 520,528	23.38%	\$ 98,630

The General Fund balance increased primarily due to revenues exceeding budget by \$29,256 and expenditures being under budget by \$94,065. Actual General Fund expenditures were \$141,232 under revenues received (including transfers from other funds). The Municipal Road Aid fund increased slightly due to road expenditures in the current year being \$22,450 higher than budgeted. The Community Center fund decreased slightly because the \$52,000 transfer made to the General Fund was more than budgeted.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statement of Net Position and Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole in a better or worse financial position as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual 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 as the difference between assets, what the citizens own, and liabilities, what the citizens owe. This is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other factors also, such as changes in the City's property tax, gross receipts, payroll and insurance premium tax base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we have listed the governmental activities. Most of the City's basic services are reported here, including general government, police, fire & EMS, streets, community center, garage, parks, etc. Gross receipts and payroll license fees, insurance premium taxes, charges for services (waste collection, community center usage, etc.) and property taxes, as well as government grants finance most of these activities.

Fund Financial Statements

The Governmental Fund financial statements provide detailed information about the City's funds. Some funds are required to be established by State Statute or Municipal Ordinance (Ex. Community Center Fund). However, the City Council establishes a few other funds to help it control and manage money for particular purposes (Ex. Sewer Maintenance) or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Fund).

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 remaining 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 differences between the government wide net position financial statements and the governmental fund financial statements in the reconciliations within the audited financial statements.

Government-Wide Change in Net Position

For the year ended June 30, 2015, net position for all of the changed as follows:

	<u>Governmental Activities</u>
Beginning Net Position	\$ 2,765,132
Increase in Net Position	9,584
Prior period adjustment	<u>(551,382)</u>
Ending Net Position	<u>\$ 2,223,334</u>

Government-Wide Statement of Net Position Summary

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2015</u>
Current Assets	\$ 476,959	\$ 573,350
Capital Assets, Net	3,895,432	3,635,546
Deferred Outflows of Resources	-	<u>115,539</u>
Total Assets and Deferred Outflows of Resources	<u>4,372,391</u>	<u>4,324,435</u>
Current Liabilities	175,837	146,794
Noncurrent Liabilities	1,431,422	1,893,808
Deferred Inflows of Resources	-	<u>60,499</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,607,259</u>	<u>2,101,101</u>
Net Position	<u>\$ 2,765,132</u>	<u>\$ 2,223,334</u>

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2015, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2014	FYE 2015	Percentage	Increase
	Amount	Amount	Incr(Decr)	(Decrease) From FYE 14
Property Tax	\$ 1,025,149	\$ 1,054,725	2.9%	\$ 29,576
Franchise Fees	29,034	29,408	1.3%	374
Telecommunication Tax	50,238	45,102	-10.2%	(5,136)
Payroll Tax	363,626	464,178	27.7%	100,552
Insurance Premium Tax	306,845	331,425	8.0%	24,580
Licenses and Permits	53,170	31,550	-40.7%	(21,620)
Intergovernmental	343,630	123,846	-64.0%	(219,784)
Fines, forfeitures, penalties	30,273	18,730	-38.1%	(11,543)
Charges for Services	256,782	263,282	2.5%	6,500
Investment Income	1,140	1,184	3.9%	44
Sale of Surplus Property	3,714	-	-100.0%	(3,714)
Loan Proceeds	260,125	175,000	-32.7%	(85,125)
Miscellaneous	13,022	59,664	358.2%	46,642
Total Revenues	\$ 2,736,748	\$ 2,598,094	-5.1%	\$ (138,654)

Property taxes increased slightly. Telecommunications taxes decreased 10.2%. Payroll taxes increased 27.7%. Fines and forfeitures decreased 38.1%. The intergovernmental revenue decreased 64.0% because of the "Safe Routes to School" funds received in FY2014 in the amount of \$214,780, used for funding the west side sidewalk project on US 27 from Temple Place to Mook Road. This program was completed in FY 2014. Loan proceeds decreased 32.7%.

Expenditures	FYE 2014	FYE 2015	Percentage	Increase
	Amount	Amount	Incr(Decr)	(Decrease) From FYE 14
General Government	\$ 260,328	\$ 274,237	5.3%	\$ 13,909
Police	706,177	722,734	2.3%	16,557
Fire/EMS	276,381	288,580	4.4%	12,199
Waste Collection	190,619	190,409	-0.1%	(210)
Streets	187,006	267,502	43.0%	80,496
Garage	118,962	127,359	7.1%	8,397
Community Center	90,781	211,348	132.8%	120,567
Parks	44,606	52,175	17.0%	7,569
Sewers	9,318	5,457	-41.4%	(3,861)
Capital Outlay	376,276	-	-100.0%	(376,276)
Debt Service	392,778	359,663	-8.4%	(33,115)
Total Expenditures	\$ 2,653,232	\$ 2,499,464	-5.8%	\$ (153,768)

Police expense increased slightly. Streets expense increased by 43.0%. The Community Center expenses increased due to the repairs from the water damage and the preventative maintenance to avoid a future water leak.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets were reported for the fiscal years ended as follows:

	Governmental Activities	
	<u>2014</u>	<u>2015</u>
Construction in Progress	\$ -	\$ -
Land	370,323	370,323
Buildings	3,208,709	3,208,709
Land Improvements	39,867	39,867
Infrastructure	1,310,605	1,310,605
Equipment	666,125	666,125
Vehicles	438,405	438,405
Totals	<u>\$ 6,034,034</u>	<u>\$ 6,034,034</u>

There were no additions/deletions in capital assets during FY2015.

Debt

The City has \$1,431,434 in outstanding debt at June 30, 2015, a 7.78% decrease from 2014 as detailed below:

	Governmental Activities	
	<u>2014</u>	<u>2015</u>
Firehouse Note Payable	\$ 1,107,712	\$ 1,074,122
Storm Sewer Note Payable	333,186	313,706
Backhoe Lease	23,290	9,316
2011 Cruiser Lease	991	-
Citizens - 2013 Loan	41,332	8,424
Citizens - 2014 TAN	-	-
Citizens - 2013 Loan	45,687	25,866
Totals	<u>\$ 1,552,198</u>	<u>\$ 1,431,434</u>

GENERAL BUDGETARY HIGHLIGHTS

Over the course of the year, the city council revised the budget once. The budget amendment was made to increase the beginning fund balance to actual and to increase revenues and decrease expenditures to more closely reflect the anticipated revenues and expenditures for the year.

Actual revenues exceeded budgeted amounts by \$79,046 (3.1%) across all funds, mainly due to a \$66,643, positive variance in the general fund. Actual expenditures came in under budget by \$71,661 (2.8%) due primarily

to street improvement expenses that were budgeted for the current year, but not used, and a decrease in general fund police expenditures. As a result, the City ended the year with revenues exceeding expenditures and transfers by \$141,232 instead of a budgeted gain of \$52,077.

GASB 68 PENSION LIABILITY RECOGNITION

As of June 30, 2015, the City is required, by Governmental Accounting Standards Board Statement No. 68, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. Due to this requirement, the 2014 Statement of Net Position above was restated by (\$551,382) to include the beginning balance of the net pension liability at June 30, 2014. The net pension liability, \$556,346, the deferred outflow of resources, \$115,539, and the deferred inflow of resources, \$60,499, on the Statement of Net Position at June 30, 2015 are a function of this required reporting. Detailed information on this pension recognition can be found in Note J in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2015 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

The City is allowed by law to set an ad valorem rate that will generate 4% more revenue than last year. This year the Council voted to take the allowable 1.5% increase. The rate was set at 0.545 per hundred for the fiscal year ended June 30, 2015 vs. 0.510 in fiscal year 2014. The rate for the firehouse loan was set at 0.5387 per hundred for the fiscal year ended June 30, 2015 vs. 0.504 in fiscal year 2014.

The City of Southgate has been awarded a \$170,000 grant from the Commonwealth of Kentucky through the Campbell County Fiscal Court, to be spent on road projects in the 2015-2016 fiscal year. This grant is in addition to the normal Municipal Road Aid allocation received by the City each year. The City has committed to spend \$301,392 on special road projects in 2015-2016. The City will provide \$131,392 of the funding, with the remaining \$170,000 to be paid from the grant.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, 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 City's Finance Director, Teresa Hudson, CPA at (859) 441-0075 or at the city building at 122 Electric Avenue, Southgate, KY 41017.

CITY OF SOUTHGATE, KENTUCKY**Statement of Net Position**

June 30, 2015

	Governmental Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 391,302
Receivables	
Property taxes	11,823
Intergovernmental	9,109
Other	161,016
Other assets	100
Total Current Assets	<u>573,350</u>
Noncurrent Assets	
Capital Assets	
Land and construction in progress	370,323
Capital assets being depreciated	5,663,711
Less: accumulated depreciation	<u>(2,398,488)</u>
Net Capital Assets	<u>3,635,546</u>
TOTAL ASSETS	<u>4,208,896</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension contribution for fiscal year 2015	115,539
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>115,539</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>4,324,435</u>
LIABILITIES	
Current Liabilities	
Accounts payable	17,718
Accrued liabilities	25,291
Deferred revenue	9,813
Current portion of notes payable	93,972
Total Current Liabilities	<u>146,794</u>
Noncurrent Liabilities	
Notes payable	1,337,462
Net pension liability	556,346
Total Noncurrent Liabilities	<u>1,893,808</u>
TOTAL LIABILITIES	<u>2,040,602</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources related to pensions	60,499
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>2,101,101</u>
NET POSITION	
Net investment in capital assets	2,204,112
Restricted	92,152
Unrestricted	<u>(72,930)</u>
TOTAL NET POSITION	<u>\$ 2,223,334</u>

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

CITY OF SOUTHGATE, KENTUCKY

Statement of Activities

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Primary Government Governmental Activities					
Administration	\$ 280,860	\$ 30,921	\$ -	\$ -	\$ (249,939)
Police	738,531	4,825	33,840	-	(699,866)
Fire and EMS	373,971	-	-	-	(373,971)
Waste collection	190,409	185,699	-	-	(4,710)
Streets	367,793	-	90,006	-	(277,787)
Garage	146,919	-	-	-	(146,919)
Community Center	252,623	41,837	-	-	(210,786)
Parks	51,412	-	-	-	(51,412)
Sewers	10,992	-	-	-	(10,992)
Total Governmental Activities	\$ 2,413,510	\$ 263,282	\$ 123,846	\$ -	(2,026,382)

General Revenues

Taxes

Property taxes	1,054,725
Franchise fees	29,408
Telecommunications taxes	45,102
Payroll license	464,178
Insurance premium taxes	331,425
Licenses and permits	31,550
Investment income	1,184
Fines, forfeitures, penalties	18,730
Miscellaneous	59,664
Total general revenues	2,035,966
Change in net position	9,584
Net position, beginning	2,765,132
Prior period adjustment	(551,382)
Net position, ending	\$ 2,223,334

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

CITY OF SOUTHGATE, KENTUCKY
Balance Sheet - Governmental Funds
June 30, 2015

	2015			(Memo Only) 2014 Totals
	General Fund	Other Governmental Funds	Total Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 339,368	\$ 51,934	\$ 391,302	\$ 328,620
Receivables				
Taxes	11,823	-	11,823	6,890
Intergovernmental	1,998	7,111	9,109	36,184
Other	161,016	-	161,016	87,033
Other assets	100	-	100	18,232
Due from other funds	10,690	-	10,690	70,981
TOTAL ASSETS	\$ 524,995	\$ 59,045	\$ 584,040	\$ 547,940
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 17,614	\$ 104	\$ 17,718	\$ 37,293
Accrued liabilities	14,730	10,561	25,291	17,768
Deferred revenue	9,813	-	9,813	-
Due to other funds	-	10,690	10,690	70,981
TOTAL LIABILITIES	42,157	21,355	63,512	126,042
FUND BALANCES				
Unspendable	100	-	100	18,232
Restricted	50,028	42,124	92,152	120,403
Committed	500	-	500	500
Assigned	-	(4,434)	(4,434)	5,732
Unassigned	432,210	-	432,210	277,031
TOTAL FUND BALANCES	482,838	37,690	520,528	421,898
TOTAL LIABILITIES AND FUND BALANCES	\$ 524,995	\$ 59,045	\$ 584,040	\$ 547,940

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

<p>CITY OF SOUTHGATE, KENTUCKY Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position June 30, 2015</p>

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

Total fund balance per balance sheet	\$ 520,528
Capital assets of \$6,034,034 less accumulated depreciation of (\$2,398,488), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,635,546
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds.	
Deferred outflow of resources	115,539
Deferred inflow of resources	(60,499)
Long-term liabilities, including leases payable, and net pension liability are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.	
Net pension liability	(556,346)
Notes payable	<u>(1,431,434)</u>
Net position of governmental activities	<u>\$ 2,223,334</u>

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

CITY OF SOUTHGATE, KENTUCKY

**Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2015**

	2015			(Memo Only)
	General Fund	Other Governmental Funds	Total Governmental Funds	2014 Totals
Revenues				
Property taxes	\$ 1,054,725	\$ -	\$ 1,054,725	\$ 1,025,149
Franchise fees	29,408	-	29,408	29,034
Telecommunications taxes	45,102	-	45,102	50,238
Payroll license	464,178	-	464,178	363,626
Insurance premium taxes	331,425	-	331,425	306,845
Licenses and permits	31,550	-	31,550	53,170
Intergovernmental	10,730	90,006	100,736	104,937
Fines, forfeitures, penalties	18,730	-	18,730	30,273
KLEFPF Income	23,110	-	23,110	23,913
Safe routes to school	-	-	-	214,780
Charges for services	221,445	41,837	263,282	256,782
Investment income	1,175	9	1,184	1,140
Miscellaneous	59,664	-	59,664	13,022
Total Revenues	<u>2,291,242</u>	<u>131,852</u>	<u>2,423,094</u>	<u>2,472,909</u>
Expenditures				
Current Expenditures				
Administration	274,237	-	274,237	260,328
Police	722,734	-	722,734	706,177
Fire and EMS	288,580	-	288,580	276,381
Waste collection	190,409	-	190,409	190,619
Streets	145,052	122,450	267,502	187,006
Garage	127,359	-	127,359	118,962
Community Center	211,344	4	211,348	90,781
Parks	52,175	-	52,175	44,606
Sewers	5,457	-	5,457	9,318
Capital outlay	-	-	-	376,276
Debt service	359,663	-	359,663	392,778
Total Expenditures	<u>2,377,010</u>	<u>122,454</u>	<u>2,499,464</u>	<u>2,653,232</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(85,768)</u>	<u>9,398</u>	<u>(76,370)</u>	<u>(180,323)</u>
Other Financing Sources (Uses)				
Loan/lease proceeds	175,000	-	175,000	260,125
Gain on sale of assets	-	-	-	3,714
Operating transfers in	52,000	-	52,000	94,000
Operating transfers out	-	(52,000)	(52,000)	(94,000)
Total Other Financing Sources (Uses)	<u>227,000</u>	<u>(52,000)</u>	<u>175,000</u>	<u>263,839</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>141,232</u>	<u>(42,602)</u>	<u>98,630</u>	<u>83,516</u>
Fund Balance, beginning	<u>341,606</u>	<u>80,292</u>	<u>421,898</u>	<u>338,382</u>
Fund Balance, ending	<u>\$ 482,838</u>	<u>\$ 37,690</u>	<u>\$ 520,528</u>	<u>\$ 421,898</u>

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

CITY OF SOUTHGATE, 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, 2015**

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

Net change in fund balance - total governmental funds \$ 98,630

Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ -	
Depreciation expense	<u>(259,886)</u>	(259,886)

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

Pension contributions	115,539
Costs of benefits earned	(65,463)

Lease proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (175,000)

Repayment of notes payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 295,764

Change in net position of governmental activities \$ 9,584

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

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2015
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NOTE A – OVERVIEW OF ENTITY

The City of Southgate, Kentucky, was incorporated in 1907. The City operates under a Council-Mayor form of government as a fourth-class city under the Kentucky Revised Statutes. The City provides the following services: police, streets, and general administrative services. Fire protection, building permits/inspections, and waste collection are services contracted to other agencies.

Kentucky Revised Statutes and Ordinances of the City Council of the City of Southgate, Kentucky (City) designate the purpose, function and restrictions of the various funds. The financial statements included herein consist of the General, Municipal Road Aid, and Community Center Funds.

Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Southgate, Kentucky.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. The City has no component units. The Southgate Public Property and Projects Corporation is included in the accompanying financial statements in the general fund.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Presentation Government-Wide Financial Statements

The government-wide financial statements (Statement of Net Position and Activities) report information on all activities of the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The City has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

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. 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 soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Material revenues susceptible to accrual are payroll license fees, insurance fees and grant revenues. 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.

Governmental Fund Types

The City reports the following governmental funds:

- (A) The General Fund is the main operating fund of the City. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the City.
- (B) The Municipal Road Aid Fund, the Sewer Maintenance Fund, and the Community Center Fund are all nonmajor special revenue funds of the City.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City.

The City is authorized by state statute to invest in:

- Obligations of the United States and of its Agencies and Instrumentalities
- Certificates of Deposit
- Banker's Acceptances
- Commercial Paper
- Bonds of Other State or Local Governments
- Mutual Funds

Investments

In accordance with the *Government Accounting Standards Board*, investments held at June 30, 2015 are recorded at fair value based on quoted market prices.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

Property Tax Receivable

Property taxes are levied as of January 1 on property values assessed as of the same date. The taxes are billed on approximately October 1 and are due and payable on November 30. On December 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on December 1.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2015 are recorded as prepaid items.

Capital Assets

General capital assets are assets that generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets.

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure, such as streets, sidewalks and storm sewers are capitalized, including infrastructure acquired prior to the implementation of GASB. The valuation basis for general capital assets are historical costs, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are recorded at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. The City maintains a capitalization threshold of one thousand dollars with the exception of Infrastructure for which the threshold is five thousand dollars.

Capital assets used in operations are depreciated over their estimated useful lives using the straight line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet.

The range of useful lives used for depreciation purposes for each fixed asset class is as follows:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	50 Years
Buildings improvements	Remaining life of building
Public domain infrastructure	15 Years
Light vehicles	5 Years
Heavy vehicles	10 Years
Equipment	5 - 15 years

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for all governmental funds. All annual appropriations continue in effect until a new budget is adopted.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures.

Fund Equity

Net position is the difference between assets and liabilities. Total invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

The City uses funds and account groups to report on its financial position and the result of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Nonspendable fund balances consist of amounts that are not in spendable form; the City considers prepaid expenses to be nonspendable.

Restricted fund balances are amounts that can only be used pursuant to constraints imposed by external sources; such as state government restrictions or the funds restricted by the will of the City's voters. These include residual balances from the Kentucky Municipal Aid Road Fund and the balance of cash and receivables from the Special Fire Tax.

Committed fund balances are amounts that can only be used for specific purposes as stipulated internally by the City Council. These items can only be changed or lifted by the Council taking the same formal action that imposed the restraint. These include residual balances from the balance of postage stamps held for sale to the public.

Assigned fund balances consists of funds that are set aside with the intent to be used for a specific purpose by the City's highest level of decision making authority or a body or official that has been given the authority to assign funds. These include balances from the Community Center Fund.

Unassigned fund balances consist of all residual funds not included in nonspendable, restricted, committed, or assigned fund balances.

Operating Revenues and Expenses

Operating revenues and expenses are reported by fund. It also includes all revenue and expenses related to capital and related financing or investing activities.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, governmental funds report expenditures of financial resources.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with City ordinance, prior to May 31, the Mayor submits to the City Council a proposed operating budget on the modified accrual basis of accounting for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) A public meeting is conducted to obtain citizen comment.
- 3) By July 1, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the Council. The Council adopted one supplementary appropriation ordinance during the year. All appropriations lapse at fiscal year end.

NOTE D – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

The carrying amount of the City's cash equivalents (bank deposits, money market accounts and certificates of deposit with less than 90 days maturity) with financial institutions was \$391,302 at June 30, 2015.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2015
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All of the City's cash equivalents are insured by the FDIC or are collateralized with securities held by the pledging institution's trust department in the City's name or owned directly by the City. As of June 30, 2015, the City did not have any deposits in excess of insured and/or collateralized amounts.

Custodial Credit Risk and Investment Policy

It is the policy of the City to invest public funds in a manner that will provide the highest investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all state statutes and City regulations governing the investments of public funds.

For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will be able to recover the value of its cash, investments or collateral securities that are in the possession of an outside party. All deposits and investments are made in accordance with state statutes.

NOTE E – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2015 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE F – CLAIMS AND JUDGMENTS

Amounts received, or receivable, from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE G – INTERFUND ACTIVITY

Transfers are typically used to move unrestricted revenues collected in one fund to finance various programs accounted for in another fund in accordance with budgetary authorizations and to fund debt service payments when they become due.

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Community Center	General	\$ 52,000
		<u>\$ 52,000</u>

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

NOTE H – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 370,323	\$ -	\$ -	\$ 370,323
Construction in progress	-	-	-	-
Total Capital Assets Not Being Depreciated	370,323	-	-	370,323
Depreciable Capital Assets				
Infrastructure	1,310,605	-	-	1,310,605
Buildings	3,208,709	-	-	3,208,709
Land improvements	39,867	-	-	39,867
Equipment	666,125	-	-	666,125
Vehicles	438,405	-	-	438,405
Total Depreciable Capital Assets	5,663,711	-	-	5,663,711
Total Capital Assets at Historical Cost	6,034,034	-	-	6,034,034
Less Accumulated Depreciation				
Infrastructure	244,625	87,374	-	331,999
Buildings	1,114,068	64,174	-	1,178,242
Land improvements	6,066	1,595	-	7,661
Equipment	545,775	48,254	-	594,029
Vehicles	228,068	58,489	-	286,557
Total Accumulated Depreciation	2,138,602	259,886	-	2,398,488
Depreciable Capital Assets, Net	3,746,355	(259,886)	-	3,265,223
Total Capital Assets, Net	\$ 3,895,432	\$ (259,886)	\$ -	\$ 3,635,546

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2015
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Current year depreciation was charged to governmental functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
Administration	\$ 12,887
Fire and EMS	31,745
Police	46,713
Streets	101,688
Garage	23,242
Park	992
Community Center	42,619
Total Depreciation	<u>\$ 259,886</u>

NOTE I – LONG-TERM DEBT

Storm Sewer Lease

On April 2, 2007, the City entered into a lease agreement with the Kentucky League of Cities for replacement of a collapsed storm sewer. The debt proceeds are held in an acquisition trust account at U.S. Bank in Louisville, Kentucky. The City began making monthly payments in May 2007. The debt has a variable interest rate and matures in May of 2027. The balance outstanding at June 30, 2015 is \$313,706. City assets act as collateral for the loan. The remaining maturities on the Storm Sewer lease are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 20,369	\$ 9,815	\$ 30,184
2017	21,305	9,144	30,449
2018	22,281	8,478	30,759
2019	23,304	7,770	31,074
2020	24,369	7,044	31,413
Thereafter	202,078	25,451	227,529
Total	<u>\$ 313,706</u>	<u>\$ 67,702</u>	<u>\$ 381,408</u>

Firehouse Lease

On June 11, 2009, the City entered into a lease agreement with the Kentucky League of Cities to construct, equip, and maintain a firehouse and related facilities in the City of Southgate. All rights, title, and interest of the City has been assigned to U.S. Bank in Louisville, Kentucky, as trustee under a Trust Indenture dated as of December 1, 2008. The City began making monthly payments in July, 2009. The debt has an interest rate of 3.98% and matures on June 1, 2034. The balance outstanding at June 30, 2015 is \$1,074,122. The building acts as collateral for the loan.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

The remaining maturities on the Firehouse are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 35,248	\$ 51,991	\$ 87,239
2017	37,009	50,234	87,243
2018	38,851	48,395	87,246
2019	40,790	46,460	87,250
2020	42,809	44,446	87,255
Thereafter	879,415	342,724	1,222,139
Total	\$ 1,074,122	\$ 584,250	\$ 1,658,372

Backhoe Lease

In September 2011, the City entered into a lease/purchase agreement with Farmers Bank & Capital Trust Company to purchase a backhoe. The term of the lease is 54 months with monthly payments of \$1,165. The debt has an interest rate of 6% and matures in January 2016. The balance outstanding at June 30, 2015 is \$9,316. The backhoe acts as collateral for the loan. The remaining maturities on the backhoe are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 9,316	\$ 862	\$ 10,178
Total	\$ 9,316	\$ 862	\$ 10,178

2011 Police Cruiser Lease

In July 2011, the Highland Heights Southgate Police Authority (Police Authority) entered into a lease/purchase agreement with Farmers Bank & Capital Trust Company to purchase a 2011 Dodge Charger Police Cruiser. The term of the lease is 36 months with monthly payments of \$972. The debt has an interest rate of 4.06% and matures in July 2014. In March 2012 when the Police Authority disbanded, this police cruiser, which this debt funded, is an asset that was transferred to the City of Southgate. The residual balance of the loan was also transferred to the City in March 2012. The balance of this loan was paid in full balance during June 30, 2015.

2012 Citizens Bank Loan

On September 19, 2012, the City entered into a loan agreement with Citizens Bank in the amount of \$96,081 to purchase two police cruisers and a pick-up truck. The term of the loan is 36 months with monthly payments of \$2,830. The debt has an interest rate of 3.78% and matures in September of 2015. The balance outstanding at June 30, 2015 is \$8,424. The vehicles act as collateral for the loan.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

The remaining maturities on the loan are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 8,424	\$ 40	\$ 8,464
Total	\$ 8,424	\$ 40	\$ 8,464

2014 Citizens Bank Loan

On September 27, 2013, the City entered into a loan agreement with Citizens Bank in the amount of \$60,125 to purchase two police cruisers. The term of the loan is 36 months with monthly payments of \$1,771. The debt has an interest rate of 3.78% and matures in September of 2016. The balance outstanding at June 30, 2015 is \$25,866. The vehicles act as collateral for the loan. The remaining maturities on the loan are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 20,615	\$ 632	\$ 21,247
2017	5,251	61	5,312
Total	\$ 25,866	\$ 693	\$ 26,559

Summary of General Long-Term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2015:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements/ Repayments</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amounts Due</u> <u>Within 1 Year</u>
Firehouse	\$ 1,107,712	\$ -	\$ (33,590)	\$ 1,074,122	\$ 35,248
Storm Sewer	333,186	-	(19,480)	313,706	20,369
Backhoe	23,290	-	(13,974)	9,316	9,316
2011 Police Cruiser	991	-	(991)	-	-
Citizens Bank loan -2013	41,332	-	(32,908)	8,424	8,424
Citizens Bank - TAN	-	175,000	(175,000)	-	-
Citizens Bank loan -2014	45,687	-	(19,821)	25,866	20,615
Total	\$ 1,552,198	#####	\$ (295,764)	\$ 1,431,434	\$ 93,972

NOTE J – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City participates in the County Employees' Retirement System of Kentucky ("Plan"). The Plan is a cost-sharing, multi-employer public retirement plan created by and operating under Kentucky law. It is a defined benefit plan that covers substantially all regular employees of the City.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2015
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The Plan provides for retirement, disability and death benefits.

Participating non-hazardous employees contribute 5% (8% for hazardous duty employees) of their creditable compensation. Hazardous duty employees who entered the plan after August 31, 2008 must also contribute an additional 1% of their annual creditable compensation for health insurance. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium.

Contributions

The City contributed 17.67% (34.31% for hazardous duty employees) of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2015. The City of Southgate made all required contributions for the Plan pension obligation for the fiscal year ended June 30, 2015 in the amount of \$115,539.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability of \$556,346 its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's employer allocation proportion was 0.013427% of the total CERS non-hazardous duty employees and 0.010045% of the total CERS hazardous duty employees. For the year ended June 30, 2015, the City recognized pension expense of \$115,539.

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on plan investments	-	60,499
Changes of assumptions	-	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	115,539	-
Total	\$ 115,539	\$ 60,499

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The \$115,539 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2016	\$ 12,100
2017	12,100
2018	12,100
2019	12,100
2020	12,099
	<u>\$ 60,499</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan expense, including inflation

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>CERS Hazardous & Non-Hazardous Target Allocation</u>	<u>Long Term Expected Nominal Return</u>
Domestic equity	30%	8.5%
International equity	22%	8.9%
Emerging market equity	5%	10.5%
Private equity	7%	11.3%
Real estate	5%	7.0%
Core US fixed income	10%	5.3%
HY US fixed income	5%	7.3%
Non US fixed income	5%	5.5%
Commodities	5%	7.8%
TIPS	5%	5.0%
Cash	1%	3.3%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.75%	\$ 731,176
Current discount rate	7.75%	556,346
1% increase	8.75%	403,162

Plan Fiduciary Net Position

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE K – FIRE AND LIFE SQUAD PROTECTION

The City contracts with the Southgate Volunteer Fire Department for fire protection and with the Southgate Wilder EMS for life squad service. These annual contracts totaled \$256,000 for fire protection and \$15,000 for life squad service during the fiscal year ended June 30, 2015.

NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 67 – *Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25* – This statement is not currently applicable to the City of Southgate, KY.

Statement No. 68 – *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27* – Requires the City to report their representative share of the unfunded pension liability of the Kentucky County Employee Retirement System (CERS) on the City's Statement of Net Position. This statement is effect for the fiscal period June 30, 2015. This statement adds a liability that was booked as a prior period adjustment at June 30, 2014 in the net amount of \$551,382 (\$616,845 in net pension liability and an offsetting \$65,463 in deferred outflow of resources) as the City's share of the CERS unfunded liability to the City's Statement of Net Position.

Statement No. 69 – *Government Combinations and Disposals of Government Operations* – This statement is not currently applicable to the City of Southgate, Kentucky.

Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees* – This statement is not currently applicable to the City of Southgate, Kentucky.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2015

NOTE M – FUTURE ACCOUNTING STANDARDS

Statement No. 77 – Tax Abatement Disclosures

Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Statement No. 72 – Fair Value Measurement and Application

Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68

NOTE N – PRIOR PERIOD ADJUSTMENTS

The City has recorded an adjustment to the Beginning Net Position of (\$551,382) at June 30, 2014. This adjustment accounts for the estimated net pension liability at June 30, 2014, and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE O – SUBSEQUENT EVENTS

Management has evaluated events through December 9, 2015, the date on which the financial statements were available for issue. The City has no events subsequent to June 30, 2015 through December 9, 2015 to disclose.

CITY OF SOUTHGATE, KENTUCKY

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (With Variances) - General Fund For the Year Ended June 30, 2015

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 303,943	\$ 37,663	\$ 341,606	\$ 341,606	-
Resources (Inflows)					
Estimated revenues	2,338,481	61,118	2,399,599	2,466,242	66,643
Transfer of Funds	-	-	-	-	-
Amounts available for appropriation	<u>2,642,424</u>	<u>98,781</u>	<u>2,741,205</u>	<u>2,807,848</u>	<u>66,643</u>
Charges to appropriations (outflows)					
Administration	472,977	(22,807)	450,170	450,013	157
Police	797,011	13,878	810,889	766,369	44,520
Streets	197,528	(6,015)	191,513	172,881	18,632
Sewers	34,257	-	34,257	30,644	3,613
Waste Collection	191,152	-	191,152	190,409	743
Fire	385,071	(7,583)	377,488	375,816	1,672
Community Center	117,465	116,040	233,505	211,344	22,161
Garage	125,066	(5,974)	119,092	127,359	(8,267)
Parks	65,353	(2,344)	63,009	52,175	10,834
Total charges to appropriations	<u>2,385,880</u>	<u>85,195</u>	<u>2,471,075</u>	<u>2,377,010</u>	<u>94,065</u>
Transfers in	52,000	(14,613)	37,387	52,000	14,613
BUDGETARY FUND BALANCE, JUNE 30	<u>\$ 308,544</u>	<u>\$ (1,027)</u>	<u>\$ 307,517</u>	<u>\$ 482,838</u>	<u>\$ 175,321</u>

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

CITY OF SOUTHGATE, KY
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure
For the Year Ended June 30, 2015

Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Proportion of net pension liability	0.013427%									
Proportionate share of the net pension liability (asset)	\$ 556,346									
Covered employee payroll in year of measurement	537,972									
Share of the net pension liability (asset) as a percentage of its covered employee payroll	103.42%									
Plan fiduciary net position as a percentage of total pension liability	65.96%									

Schedule of the City's Contributions
County Employees' Retirement System (CERS)

(New disclosure in 2015, will display additional years as time progresses)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 115,539	\$ 116,566								
Actual contribution	115,539	116,566								
Contribution deficiency (excess)	-	-								
Covered employee payroll	588,477	537,972								
Contributions as a percentage of covered employee payroll	19.63%	21.67%								

Notes to Required Supplementary Information
for the Year Ended June 30, 2015
Changes of Assumptions

The net pension liability as of June 30, 2015, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience and changes in assumptions subject to amortization.

CITY OF SOUTHGATE, KENTUCKY Combining Balance Sheet - Non-Major Governmental Funds June 30, 2015

	Municipal Road Aid Fund	Community Center Fund	Total Non-Major Funds
ASSETS			
Cash and cash equivalents	\$ 45,703	\$ 6,231	\$ 51,934
Accounts receivable			
Intergovernmental	7,111	-	7,111
TOTAL ASSETS	<u>\$ 52,814</u>	<u>\$ 6,231</u>	<u>\$ 59,045</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 104	\$ 104
Rental deposits	-	10,561	10,561
Due to other funds	10,690	-	10,690
TOTAL LIABILITIES	<u>10,690</u>	<u>10,665</u>	<u>21,355</u>
FUND BALANCES			
Restricted	42,124	-	42,124
Assigned	-	(4,434)	(4,434)
Unassigned	-	-	-
TOTAL FUND BALANCES	<u>42,124</u>	<u>(4,434)</u>	<u>37,690</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 52,814</u>	<u>\$ 6,231</u>	<u>\$ 59,045</u>

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

CITY OF SOUTHGATE, KENTUCKY**Combining Statement of Revenues, Expenditures and Changes in Fund Balance -
Non-Major Governmental Funds
For the Year Ended June 30, 2015**

	Municipal Road Aid Fund	Community Center Fund	Total Non-Major Funds
Revenues			
Intergovernmental revenue	\$ 90,006	\$ -	\$ 90,006
Charges for services	-	41,837	41,837
Interest	8	1	9
Total Revenues	<u>90,014</u>	<u>41,838</u>	<u>131,852</u>
Expenditures			
Streets	122,450	-	122,450
Community Center	-	4	4
Total Expenditures	<u>122,450</u>	<u>4</u>	<u>122,454</u>
Excess of Revenues Over Expenditures	(32,436)	41,834	9,398
Other Financing Sources (Uses)			
Operating transfers out	-	(52,000)	(52,000)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(32,436)	(10,166)	(42,602)
Fund Balance, beginning	74,560	5,732	80,292
Fund Balance, ending	<u>\$ 42,124</u>	<u>\$ (4,434)</u>	<u>\$ 37,690</u>

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

CITY OF SOUTHGATE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Municipal Road Aid Fund
For the Year Ended June 30, 2015**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 51,800	\$ (22,760)	\$ 74,560	\$ 74,560	\$ -
Resources (inflows):					
Estimated Revenues	207,012	125,000	82,012	90,006	7,994
Interest	-	-	-	8	8
Amounts available for appropriation	258,812	102,240	156,572	164,574	8,002
Charges to appropriations (outflows):					
Streets	160,875	(60,875)	100,000	122,450	(22,450)
Transfers to (from) fund	-	-	-	-	-
Budgetary fund balance, June 30	\$ 97,937	\$ 163,115	\$ 56,572	\$ 42,124	\$ (14,448)

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

CITY OF SOUTHGATE, KENTUCKY**Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual (With Variances) - Community Center Fund
For the Year Ended June 30, 2015**

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 3,406	\$ 2,326	\$ 5,732	\$ 5,732	\$ -
Resources (Inflows):					
Rental and sales income	53,500	(16,063)	37,437	41,838	4,401
Transfer to (from) fund	(52,000)	14,613	(37,387)	(52,000)	(14,613)
Amounts available for appropriation	<u>4,906</u>	<u>876</u>	<u>5,782</u>	<u>(4,430)</u>	<u>(10,212)</u>
Charges to appropriations (outflows):					
Community Center	<u>1,500</u>	<u>(1,450)</u>	<u>50</u>	<u>4</u>	<u>46</u>
Budgetary fund balance, June 30	<u>\$ 3,406</u>	<u>\$ 2,326</u>	<u>\$ 5,732</u>	<u>\$ (4,434)</u>	<u>\$ (10,166)</u>

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

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

**To the Honorable Mayor and
Members of the Council
City of Southgate, 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 and each major fund of the City of Southgate, Kentucky as of June 30, 2015 and the related notes to the financial statements which collectively comprise the City of Southgate, Kentucky's financial statements, and have issued our report thereon dated December 9, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Southgate, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
December 9, 2015