

**CITY OF SOUTHGATE, KENTUCKY**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**For the Year Ended June 30, 2018**

# CITY OF SOUTHGATE, KENTUCKY

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2018

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**CITY OF SOUTHGATE, KENTUCKY**

**LIST OF CITY OFFICIALS**

**For the Year Ended June 30, 2018**

**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, 2018 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.



## **Opinions**

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, 2018 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.

### **Emphasis of a Matter – Implementation of New GASB Accounting Standard**

As discussed in Note J to the financial statements, effective July 1, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinions are not modified with respect to this matter.

### **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 5–9, the budgetary comparison schedule on page 38, and the pension and OPEB disclosure information on pages 39–42 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 43–46 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 January 7, 2019 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  
January 7, 2019

**CITY OF SOUTHGATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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, 2018. 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 2017 Amount	FYE 2018 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 17
General	\$ 610,647	\$ 893,019	46.24%	\$ 282,372
Municipal Road Aid	52,884	(228,164)	-531.44%	(281,048)
Community Center	1,345	682	-49.29%	(663)
<b>Total fund balance</b>	<b>\$ 664,876</b>	<b>\$ 665,537</b>	<b>0.10%</b>	<b>\$ 661</b>

The General Fund balance increased primarily due to expenditures being \$88,187 under budget and revenues being \$62,259 over budget. Actual General Fund expenditures were \$282,372 less than revenues received (including transfers from other funds). The Municipal Road Aid fund decreased by \$281,018 due to a major street program that began in fiscal year 2018. The program will be completed in fiscal year 2019 with an anticipated total cost of \$633,950. It was subsequently partially funded by issuance of \$575,000 in municipal bonds in August 2018. The Community Center fund decreased slightly because the \$47,000 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, 2018, net position for all of the changed as follows:

	<u>Governmental Activities</u>
Beginning net position	\$ 2,275,780
GASB 75 OPEB Adj.	(202,894)
Change in net position	<u>152,344</u>
Ending net position	<u>\$ 2,225,230</u>

**Government-Wide Statement of Net Position Summary**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2018</u>
Current assets	\$ 722,526	\$ 939,558
Capital assets, net	3,528,681	3,775,000
Deferred outflows of resources	<u>190,716</u>	<u>369,894</u>
Total assets and deferred outflows of resources	<u>4,441,923</u>	<u>5,084,452</u>
Current liabilities	135,917	375,365
Noncurrent liabilities	1,954,276	2,329,680
Deferred inflows of resources	<u>75,950</u>	<u>154,177</u>
Total liabilities and deferred inflows of resources	<u>2,166,143</u>	<u>2,859,222</u>
Net position	<u>\$ 2,275,780</u>	<u>\$ 2,225,230</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, 2018, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2017 Amount	FYE 2018 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 17
Property tax	\$ 1,115,582	\$ 1,150,352	3.1%	\$ 34,770
Franchise fees	24,318	27,558	13.3%	3,240
Telecommunication tax	45,094	45,157	0.1%	63
Payroll tax	410,283	453,682	10.6%	43,399
Insurance premium tax	372,123	416,758	12.0%	44,635
Licenses and permits	31,950	31,830	-0.4%	(120)
Intergovernmental	158,992	117,816	-25.9%	(41,176)
Fines, forfeitures, penalties	13,786	44,299	221.3%	30,513
Charges for services	240,438	252,590	5.1%	12,152
Investment income	4,070	11,538	183.5%	7,468
Loan proceeds	277,368	228,821	-17.5%	(48,547)
Miscellaneous	2,789	20,124	621.5%	17,335
<b>Total Expenditures</b>	<b>\$ 2,696,793</b>	<b>\$ 2,800,525</b>	<b>3.8%</b>	<b>\$ 103,732</b>

Payroll and Occupational taxes increased 10.6% due to fluctuations in payroll expense and revenues of taxpaying entities. Intergovernmental revenues decreased 25.9%. Fines and forfeitures increased 221.3% due to property citations totalling \$25,507 that were paid off in FY 2018 for prior year liens. Loan proceeds decreased 17.5% due to a decrease in borrowing on the City's Tax Anticipation Loan (which is similar to a line of credit). The loan was paid in full as of year end. Miscellaneous revenues increased primarily due to proceeds of \$12,790 from the sale of surplus property.

Expenditures	FYE 2017 Amount	FYE 2018 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 17
General Government	\$ 317,290	\$ 282,298	-11.0%	\$ (34,992)
Police	776,288	755,830	-2.6%	(20,458)
Fire/EMS	358,852	355,951	-0.8%	(2,901)
Waste Collection	175,339	175,450	0.1%	111
Streets	180,998	173,839	-4.0%	(7,159)
Garage	129,028	137,048	6.2%	8,020
Community Center	106,005	108,772	2.6%	2,767
Parks	72,286	68,532	-5.2%	(3,754)
Sewers	-	1,809	0.0%	1,809
Capital Outlay	70,912	471,805	565.3%	400,893
Debt Service	355,932	268,530	-24.6%	(87,402)
<b>Total Expenditures</b>	<b>\$ 2,542,930</b>	<b>\$ 2,799,864</b>	<b>10.1%</b>	<b>\$ 256,934</b>

Streets expense decreased 4.0% and Capital Outlay increased due to special street maintenance projects that were reported as capital outlay in FY 2018. The Community Center expenses decreased. Parks expenses decreased.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

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

	Governmental Activities	
	2017	2018
Construction in progress	\$ -	\$ 349,793
Land	378,323	378,323
Buildings	3,208,709	3,208,709
Land improvements	39,867	39,867
Infrastructure	1,596,864	1,596,864
Equipment	666,125	666,125
Vehicles	516,917	638,929
Totals	<u>\$ 6,406,805</u>	<u>\$ 6,878,610</u>

**Debt**

The City has \$1,338,096 in outstanding debt at June 30, 2018, a 1.5% increase from 2017 as detailed below:

	Governmental Activities	
	2017	2018
Firehouse note payable	\$ 1,001,864	\$ 963,013
Storm sewer note payable	272,031	251,642
United - 2016 vehicle loan	21,755	12,972
United - 2017 vehicle loan	22,888	14,539
United - 2018 vehicle loan	-	24,296
United - 2018 vehicle loan	-	71,634
United - 2014 TAN line of credit	-	-
Totals	<u>\$ 1,318,538</u>	<u>\$ 1,338,096</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 decrease revenues and decrease expenditures to more closely reflect the anticipated revenues and expenditures for the year.

Actual revenues were more than budgeted amounts by \$63,474 across all funds, mainly due to decreases in intergovernmental revenues and fines, forfeitures and penalties revenues. Actual General Fund expenditures came in under budget by \$88,187 due primarily to administration, police, streets, community center, and parks expenses that were less than budget. As a result, the City ended the year with an increase of \$661 in the combined fund balance of the General Fund, Municipal Road Aid Fund, and Community Center Fund.

## **GASB 68 PENSION AND GASB 75 OPEB LIABILITY RECOGNITION**

As of June 30, 2018, the City is required, by Governmental Accounting Standards Board Statements No. 68 and 75, 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. The net pension and OPEB liability, \$1,092,928, the deferred outflow of resources, \$369,894, and the deferred inflow of resources, \$154,177, on the Statement of Net Position at June 30, 2018 are a function of this required reporting. The 2017 Statement of Net Position has been restated by (\$202,894) to include the beginning balance of the net OPEB liability at June 30, 2017. 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 2019 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 not to take the allowable 2.0% increase over the compensating rate. The rate was set at 0.562 per hundred for the fiscal year ended June 30, 2016 and remained the same for fiscal years 2017 and 2018. The rate for the firehouse loan was set at 0.5387 per hundred for the fiscal year ended June 30, 2016 and remained the same for fiscal years 2017 and 2018.

## **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, 2018**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 709,500
Receivables	
Property taxes	4,907
Intergovernmental	10,001
Other	215,150
Total current assets	<u>939,558</u>
Noncurrent assets	
Capital assets	
Land and construction in progress	728,116
Capital assets being depreciated	6,150,494
Less: accumulated depreciation	<u>(3,103,610)</u>
Net capital assets	<u>3,775,000</u>
<b>Total assets</b>	<u>4,714,558</u>
<b>Deferred outflows of resources</b>	
Deferred outflows related to pensions and OPEB - CERS	369,894
<b>Total assets and deferred outflows of resources</b>	<u>5,084,452</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	236,613
Accrued liabilities	32,819
Deferred revenue	4,589
Current portion of notes payable	101,344
Total current liabilities	<u>375,365</u>
Noncurrent liabilities	
Notes payable	1,236,752
Net pension and OPEB liability - CERS	1,092,928
Total noncurrent liabilities	<u>2,329,680</u>
<b>Total liabilities</b>	2,705,045
<b>Deferred inflows of resources</b>	
Deferred inflows related to pensions and OPEB - CERS	154,177
<b>Total liabilities and deferred inflows of resources</b>	<u>2,859,222</u>
<b>Net position</b>	
Net investment in capital assets	2,436,904
Restricted	(161,646)
Unrestricted	(50,028)
<b>Total net position</b>	<u>\$ 2,225,230</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, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Governmental activities</b>						
Administration	\$ 320,201	\$ 22,119	\$ -	\$ -	\$ (298,082)	
Police	819,596	1,866	40,922	-	(776,808)	
Fire and EMS	424,402	-	-	-	(424,402)	
Waste collection	175,450	182,245	-	-	6,795	
Streets	310,804	-	76,894	-	(233,910)	
Garage	147,828	-	-	-	(147,828)	
Community Center	141,964	46,360	-	-	(95,604)	
Parks	69,524	-	-	-	(69,524)	
Sewers	9,591	-	-	-	(9,591)	
<b>Total governmental activities</b>	<b>\$2,419,360</b>	<b>\$ 252,590</b>	<b>\$ 117,816</b>	<b>\$ -</b>	<b>(2,048,954)</b>	
<b>General revenues</b>						
Taxes						
Property taxes						1,150,352
Franchise fees						27,558
Telecommunications taxes						45,157
Payroll license						453,682
Insurance premium taxes						416,758
Licenses and permits						31,830
Investment income						11,538
Fines, forfeitures, penalties						44,299
Miscellaneous						20,124
<b>Total general revenues</b>						<b>2,201,298</b>
<b>Change in net position</b>						<b>152,344</b>
<b>Net position, beginning of year</b>						<b>2,275,780</b>
<b>Prior year adjustment - GASB 75</b>						<b>(202,894)</b>
<b>Net position, end of year</b>						<b>\$ 2,225,230</b>

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

**CITY OF SOUTHGATE, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2018**

	2018			(Memo Only) 2017 Totals
	General Fund	Other Governmental Funds	Total Governmental Funds	
<b>Assets</b>				
Cash and cash equivalents	\$ 613,847	\$ 95,653	\$ 709,500	\$ 508,935
Receivables				
Taxes	4,907	-	4,907	6,884
Intergovernmental	2,705	7,296	10,001	9,909
Other	215,150	-	215,150	195,643
Other assets	-	-	-	1,155
Due from other funds	321,467	-	321,467	116,096
<b>Total assets</b>	<u>\$ 1,158,076</u>	<u>\$ 102,949</u>	<u>\$ 1,261,025</u>	<u>\$ 838,622</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 235,929	\$ 684	\$ 236,613	\$ 15,230
Accrued liabilities	24,539	8,280	32,819	34,352
Deferred revenue	4,589	-	4,589	8,068
Due to other funds	-	321,467	321,467	116,096
<b>Total liabilities</b>	<u>265,057</u>	<u>330,431</u>	<u>595,488</u>	<u>173,746</u>
<b>Fund balances</b>				
Unspendable	-	-	-	1,155
Restricted	66,518	(228,164)	(161,646)	112,756
Committed	500	-	500	500
Assigned	-	682	682	1,345
Unassigned	826,001	-	826,001	549,120
<b>Total fund balances</b>	<u>893,019</u>	<u>(227,482)</u>	<u>665,537</u>	<u>664,876</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,158,076</u>	<u>\$ 102,949</u>	<u>\$ 1,261,025</u>	<u>\$ 838,622</u>

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

<p><b>CITY OF SOUTHGATE, KENTUCKY</b>  <b>RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS</b>  <b>TO THE STATEMENT OF NET POSITION</b>  <b>June 30, 2018</b></p>
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**Total fund balance for governmental funds** **\$ 665,537**

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

Capital assets of \$6,878,610 less accumulated depreciation of (\$3,103,610), used in governmental activities are not financial resources and, therefore, are not reported in the funds. 3,775,000

Deferred outflows and inflows of resources related to pensions and post employment health insurance are applicable to future periods and, therefore, not reportable in the funds.

Deferred outflow of resources - pensions - CERS	287,828
Deferred outflow of resources - OPEB - CERS	82,066
Deferred inflow of resources - pensions - CERS	(139,521)
Deferred inflow of resources - OPEB - CERS	(14,656)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Net pension liability - CERS	(813,433)
Net OPEB liability - CERS	(279,495)
Notes payable	<u>(1,338,096)</u>

**Net position of governmental activities** **\$ 2,225,230**

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

**CITY OF SOUTHGATE, KENTUCKY**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2018**

	2018			(Memo Only) 2017 Totals
	General Fund	Other Governmental Funds	Total Governmental Funds	
<b>Revenues</b>				
Property taxes	\$ 1,150,352	\$ -	\$ 1,150,352	\$ 1,115,582
Franchise fees	27,558	-	27,558	24,318
Telecommunications taxes	45,157	-	45,157	45,094
Payroll license	453,682	-	453,682	410,283
Insurance premium taxes	416,758	-	416,758	372,123
Licenses and permits	31,830	-	31,830	31,950
Intergovernmental	11,277	76,894	88,171	124,514
Fines, forfeitures, penalties	44,299	-	44,299	13,786
KLEFPF Income	29,645	-	29,645	34,478
Charges for services	206,230	46,360	252,590	240,438
Investment income	9,352	2,186	11,538	4,070
Miscellaneous	20,124	-	20,124	2,789
<b>Total revenues</b>	<u>2,446,264</u>	<u>125,440</u>	<u>2,571,704</u>	<u>2,419,425</u>
<b>Expenditures</b>				
<b>Current Expenditures</b>				
Administration	282,298	-	282,298	317,290
Police	755,830	-	755,830	776,288
Fire and EMS	355,951	-	355,951	358,852
Waste collection	175,450	-	175,450	175,339
Streets	163,504	10,335	173,839	180,998
Garage	137,048	-	137,048	129,028
Community Center	108,749	23	108,772	106,005
Parks	68,532	-	68,532	72,286
Sewers	1,809	-	1,809	-
Capital outlay	122,012	349,793	471,805	70,912
Debt service	268,530	-	268,530	355,932
<b>Total expenditures</b>	<u>2,439,713</u>	<u>360,151</u>	<u>2,799,864</u>	<u>2,542,930</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>6,551</u>	<u>(234,711)</u>	<u>(228,160)</u>	<u>(123,505)</u>
<b>Other financing sources (uses)</b>				
Loan/lease proceeds	228,821	-	228,821	277,368
Operating transfers in	47,000	-	47,000	46,100
Operating transfers out	-	(47,000)	(47,000)	(46,100)
<b>Total other financing sources (uses)</b>	<u>275,821</u>	<u>(47,000)</u>	<u>228,821</u>	<u>277,368</u>
<b>Net change in fund balances</b>	282,372	(281,711)	661	153,863
<b>Fund balances, beginning of year</b>	610,647	54,229	664,876	511,013
<b>Fund balances, end of year</b>	<u>\$ 893,019</u>	<u>\$ (227,482)</u>	<u>\$ 665,537</u>	<u>\$ 664,876</u>

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

<p><b>CITY OF SOUTHGATE, KENTUCKY</b>  <b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES</b>  <b>AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS</b>  <b>TO THE STATEMENT OF ACTIVITIES</b>  <b>For the Year Ended June 30, 2018</b></p>
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Net change in fund balances - total governmental funds \$ 661

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

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset purchases capitalized	\$ 471,805	
Depreciation expense	<u>(225,486)</u>	
		246,319

Governmental funds report City pension and post employment health insurance contributions as expenditures. However, in the statement of activities, the cost of pension and post employment health insurance benefits earned, net of employer contributions, is reported as an expense.

Cost of benefits earned - pensions - CERS	(65,887)	
Cost of benefits earned - OPEB - CERS	(9,191)	

Lease proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		(228,821)
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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.		<u>209,263</u>
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<b>Change in net position of governmental activities</b>		<b><u>\$ 152,344</u></b>
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The accompanying notes are an integral part of the financial statements.

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

### 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, 2018

### *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 and the Community Center Fund are 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, 2018 are recorded at fair value based on quoted market prices.

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

### *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, 2018 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, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at their acquisition value rather than fair value. 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 capital asset class is as follows:

Description	Governmental Activities Estimated Lives
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, 2018**

*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 Road Aid 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, 2018

### *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 yearend.

### **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 \$709,500 at June 30, 2018.

<b>CITY OF SOUTHGATE, KENTUCKY</b> <b>Notes to Financial Statements</b> <b>June 30, 2018</b>
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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, 2018, 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, 2018 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	\$ 47,000
		<u>\$ 47,000</u>

**CITY OF SOUTHGATE, KENTUCKY****Notes to Financial Statements****June 30, 2018****NOTE H – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 378,323	\$ -	\$ -	\$ 378,323
Construction in progress	-	349,793	-	349,793
Total Capital Assets Not Being Depreciated	<u>378,323</u>	<u>349,793</u>	<u>-</u>	<u>728,116</u>
Depreciable Capital Assets				
Infrastructure	1,596,864	-	-	1,596,864
Buildings	3,208,709	-	-	3,208,709
Land improvements	39,867	-	-	39,867
Equipment	666,125	-	-	666,125
Vehicles	516,917	122,012	-	638,929
Total Depreciable Capital Assets	<u>6,028,482</u>	<u>122,012</u>	<u>-</u>	<u>6,150,494</u>
Total Capital Assets at Historical Cost	<u>6,406,805</u>	<u>471,805</u>	<u>-</u>	<u>6,878,610</u>
Less Accumulated Depreciation				
Infrastructure	544,915	106,458	-	651,373
Buildings	1,306,590	64,174	-	1,370,764
Land improvements	10,850	1,595	-	12,445
Equipment	616,832	7,463	-	624,295
Vehicles	398,937	45,796	-	444,733
Total Accumulated Depreciation	<u>2,878,124</u>	<u>225,486</u>	<u>-</u>	<u>3,103,610</u>
Depreciable Capital Assets, Net	<u>3,150,358</u>	<u>(103,474)</u>	<u>-</u>	<u>3,046,884</u>
Total Capital Assets, Net	<u>\$ 3,528,681</u>	<u>\$ 246,319</u>	<u>\$ -</u>	<u>\$ 3,775,000</u>

**CITY OF SOUTHGATE, KENTUCKY****Notes to Financial Statements****June 30, 2018**

Current year depreciation was charged to governmental functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
Administration	\$ 11,815
Fire and EMS	20,113
Police	42,136
Streets	106,458
Garage	10,780
Park	992
Community Center	33,192
Total Depreciation	<u>\$ 225,486</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. City assets act as collateral for the loan. The balance outstanding at June 30, 2018 is \$251,642. The remaining maturities on the Storm Sewer lease are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 23,304	\$ 7,770	\$ 31,074
2020	24,369	7,044	31,413
2021	25,489	6,252	31,741
2022	26,656	5,454	32,110
2023	27,879	4,604	32,483
Thereafter	123,945	7,250	131,195
Total	<u>\$ 251,642</u>	<u>\$ 38,374</u>	<u>\$ 290,016</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 building acts as collateral for the loan. The balance outstanding at June 30, 2018 is \$963,013.

**CITY OF SOUTHGATE, KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2018**

The remaining maturities on the Firehouse are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 40,790	\$ 46,460	\$ 87,250
2020	42,809	44,446	87,255
2021	44,944	42,315	87,259
2022	47,181	40,083	87,264
2023	49,433	37,835	87,268
Thereafter	737,856	222,492	960,348
Total	\$ 963,013	\$ 433,631	\$ 1,396,644

2016 United Bank and Capital Trust Loan

On November 16, 2016, the City entered into a loan agreement with United Bank and Capital Trust in the amount of \$26,739 to purchase a police cruiser. The term of the loan is 36 months with monthly payments of \$783. The debt has an interest rate of 3.45% and matures in November of 2019. The vehicle acts as collateral for the loan. The balance outstanding at June 30, 2018 is \$12,972. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 9,097	\$ 304	\$ 9,401
2020	3,875	22	3,897
Total	\$ 12,972	\$ 326	\$ 13,298

2017 United Bank and Capital Trust Loan

On March 1, 2017, the City entered into a loan agreement with United Bank and Capital Trust in the amount of \$25,629 to purchase a police cruiser. The term of the loan is 36 months with monthly payments of \$750. The debt has an interest rate of 3.45% and matures in March of 2020. The vehicle acts as collateral for the loan. The balance outstanding at June 30, 2018 is \$14,539. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 8,638	\$ 368	\$ 9,006
2020	5,901	103	6,004
Total	\$ 14,539	\$ 471	\$ 15,010

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

### 2018 United Bank and Capital Trust Loan

On August 24, 2017, the City entered into a loan agreement with United Bank and Capital Trust in the amount of \$28,787 to purchase a public works truck. The term of the loan is 60 months with monthly payments of \$519. The debt has an interest rate of 3.14% and matures in August of 2022. The vehicle acts as collateral for the loan. The balance outstanding at June 30, 2018 is \$24,296. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 5,545	\$ 684	\$ 6,229
2020	5,722	507	6,229
2021	5,904	325	6,229
2022	6,092	137	6,229
2023	1,033	5	1,038
Total	\$ 24,296	\$ 1,658	\$ 25,954

### 2018 United Bank and Capital Trust Loan

On March 21, 2018, the City entered into a loan agreement with United Bank and Capital Trust in the amount of \$75,034 to purchase police cruisers. The term of the loan is 60 months with monthly payments of \$1,383. The debt has an interest rate of 4.013% and matures in March of 2023. The vehicles act as collateral for the loan. The balance outstanding at June 30, 2018 is \$71,634. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 13,970	\$ 2,621	\$ 16,591
2020	14,541	2,050	16,591
2021	15,136	1,455	16,591
2022	15,754	837	16,591
2023	12,233	210	12,443
Total	\$ 71,634	\$ 7,173	\$ 78,807

### 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, 2018:

	Balance June 30, 2017	Additions	Retirements/ Repayments	Balance June 30, 2018	Amounts Due Within 1 Year
Firehouse	\$ 1,001,864	\$ -	\$ (38,851)	\$ 963,013	\$ 40,790
Storm Sewer	272,031	-	(20,389)	251,642	23,304
United Bank loan -2016	21,755	-	(8,783)	12,972	9,097
United Bank loan -2017	22,888	-	(8,349)	14,539	8,638
United Bank loan -2018	-	28,787	(4,491)	24,296	5,545
United Bank loan -2018	-	75,034	(3,400)	71,634	13,970
United Bank - TAN	-	125,000	(125,000)	-	-
Total	\$ 1,318,538	\$ 228,821	\$ (209,263)	\$ 1,338,096	\$ 101,344

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

### NOTE J – COUNTY EMPLOYEES' RETIREMENT SYSTEM

*Plan description* - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension and health insurance (Other Post-Employment Benefits; OPEB) plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on *Non-Hazardous* duty and *Hazardous* duty covered-employee classifications.

#### PENSION PLAN

##### Non-Hazardous Pension Plan Description

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to Non-Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

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

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

*Contributions* – Required pension plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5%
Tier 3	5%

### Hazardous Pension Plan Description

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation date	On or after January 1, 2014
	Unreduced retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced retirement	Not available

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

*Contributions* – Required pension plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	8%
Tier 2	8%
Tier 3	8%

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

### Contributions

For non-hazardous duty employees, the City contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018. For hazardous duty employees, the City contributed 31.55%, of which 22.20% was for the pension fund and 9.35% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$84,862, of which \$64,067 was for the pension fund and \$20,795 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$671, of which \$472 was for the pension fund and \$199 was for the health insurance fund.

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

At June 30, 2018, the City reported a liability of \$813,433 (\$808,869 – non-hazardous and \$4,564 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's non-hazardous employer allocation proportion was 0.01382% of the total CERS non-hazardous duty employees and 0.000204% of the total CERS hazardous duty employees. For the year ended June 30, 2018, the City recognized pension expense of \$65,887 in addition to its \$64,539 pension contribution. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 1,003	\$ (20,533)	\$ 167	\$ -	\$ 1,170	\$ (20,533)
Net difference between projected actual earnings on plan investments	64,061	(54,057)	299	(259)	64,360	(54,316)
Changes of assumptions	149,258	-	910	-	150,168	-
Changes in proportion and differences between contributions and proportionate share of contributions	7,591	(11,107)	-	(53,565)	7,591	(64,672)
Contributions subsequent to the measurement date	64,067	-	472	-	64,539	-
	<u>\$ 285,980</u>	<u>\$ (85,697)</u>	<u>\$ 1,848</u>	<u>\$ (53,824)</u>	<u>\$ 287,828</u>	<u>\$ (139,521)</u>

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

The City's contributions subsequent to the measurement date of \$64,539 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2019	\$ 32,430
2020	37,904
2021	23,870
2022	(10,437)
	<u>\$ 83,767</u>

### Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
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
Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates 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

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

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.

### Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

### Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that 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 6.25%. 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, 2018

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
Non-hazardous	\$ 1,020,158	\$ 808,869	\$ 632,126
Hazardous	5,738	4,564	3,594
Total	\$ 1,025,896	\$ 813,433	\$ 635,720

### HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

#### Non-Hazardous OPEB Plan Description

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

**CITY OF SOUTHGATE, KENTUCKY**

**Notes to Financial Statements**

**June 30, 2018**

*Contributions* – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

**Hazardous OPEB Plan Description**

*Benefits Provided* – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.

*Contributions* – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

**Contributions**

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

duty employees and 9.35% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the City were \$20,795 for non-hazardous duty employees and \$199 for hazardous duty employees for the year ended June 30, 2018.

### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$ 279,495 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the City's proportion of the non-hazardous plan was .01382% of the total CERS non-hazardous duty employees and .000204% of the total CERS hazardous duty employees. For the year ended June 30, 2018, the City recognized an OPEB expense of \$9,191 in addition to its \$20,994 OPEB contribution.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ -	\$ (772)	\$ -	\$ (4)	\$ -	\$ (776)
Net difference between projected actual earnings on plan investments	-	(13,129)	-	(106)	-	(13,235)
Changes of assumptions	60,450	-	622	-	61,072	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(644)	-	(1)	-	(645)
Contributions subsequent to the measurement date	20,795	-	199	-	20,994	-
	<u>\$ 81,245</u>	<u>\$ (14,545)</u>	<u>\$ 821</u>	<u>\$ (111)</u>	<u>\$ 82,066</u>	<u>\$ (14,656)</u>

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

The City's contributions subsequent to the measurement date, \$20,795 for non-hazardous duty employees and \$199 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2018. 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
2019	\$ 8,046
2020	8,046
2021	8,046
2022	7,966
2023	11,181
Thereafter	3,131
	<u>\$ 46,416</u>

### Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method:	Level, percent of pay
Amortization period:	28 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%
Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015. The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

# CITY OF SOUTHGATE, KENTUCKY

## Notes to Financial Statements

June 30, 2018

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

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

### Changes of Assumptions

In 2015, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%
- For the hazardous plan, the single discount rate changed from 7.37% to 5.96%
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

### Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the non-hazardous plan and 5.96% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

### Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.84% for the non-hazardous plan and 5.96% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

**CITY OF SOUTHGATE, KENTUCKY****Notes to Financial Statements****June 30, 2018**

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.84%	5.84%	6.84%
Net OPEB liability, non-hazardous	\$ 353,497	\$ 277,809	\$ 214,825
Discount rate, hazardous	4.96%	5.96%	6.96%
Net OPEB liability, hazardous	2,260	1,686	1,217
Total	\$ 355,757	\$ 279,495	\$ 216,042

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

Healthcare cost trend rate	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Net OPEB liability, non-hazardous	\$ 213,094	\$ 277,809	\$ 361,935
Net OPEB liability, hazardous	1,194	1,686	2,296
Total	\$ 214,288	\$ 279,495	\$ 364,231

**Plan Fiduciary Net Position**

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan's fiduciary net position. These reports 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 \$317,000 for fire protection and \$15,000 for life squad service during the fiscal year ended June 30, 2018.

**NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

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

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the City.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

**CITY OF SOUTHGATE, KENTUCKY**

**Notes to Financial Statements**

**June 30, 2018**

**NOTE M – FUTURE ACCOUNTING STANDARDS**

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 87 – *Leases* – Implementation in FY 2021

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

**NOTE N – PRIOR PERIOD ADJUSTMENT**

The City has recorded an adjustment to the Beginning Net Position of (\$202,894) at June 30, 2017. This adjustment accounts for the estimated net OPEB liability at June 30, 2017, and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

**NOTE O – SUBSEQUENT EVENTS**

Management has considered subsequent events through January 7, 2019, which represents the date financial statements were available to be issued. The City has one event subsequent to June 30, 2018 through January 7, 2019 to disclose.

On August 2, 2018, the City entered into a General Obligation Lease Agreement for the purpose of funding various road improvement projects and secured financing for the project through Kentucky Bond Corporation in the amount of \$575,000.

**CITY OF SOUTHGATE, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
<b>Budgetary fund balance, July 1</b>	<b>\$ 587,676</b>	<b>\$ 22,971</b>	<b>\$ 610,647</b>	<b>\$ 610,647</b>	<b>-</b>
<b>Resources (inflows)</b>					
Estimated revenues	2,703,200	(90,374)	2,612,826	2,675,085	62,259
Transfer of funds	-	-	-	-	-
<b>Amounts available for appropriation</b>	<b>3,290,876</b>	<b>(67,403)</b>	<b>3,223,473</b>	<b>3,285,732</b>	<b>62,259</b>
<b>Charges to appropriations (outflows)</b>					
Administration	567,106	(140,843)	426,263	407,784	18,479
Police	886,202	2,204	888,406	862,387	26,019
Streets	205,922	24,924	230,846	206,643	24,203
Sewers	30,449	310	30,759	29,980	779
Waste collection	175,325	-	175,325	175,450	(125)
Fire	445,180	-	445,180	443,140	2,040
Community center	116,033	2,775	118,808	108,749	10,059
Garage	139,043	1,332	140,375	137,048	3,327
Parks	190,965	(119,027)	71,938	68,532	3,406
<b>Total charges to appropriations</b>	<b>2,756,225</b>	<b>(228,325)</b>	<b>2,527,900</b>	<b>2,439,713</b>	<b>88,187</b>
Transfers in (out)	45,221	-	45,221	47,000	1,779
<b>Budgetary fund balance, June 30</b>	<b>\$ 579,872</b>	<b>\$ 160,922</b>	<b>\$ 740,794</b>	<b>\$ 893,019</b>	<b>\$ 152,225</b>

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

**CITY OF SOUTHGATE, KY**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS**  
**Last Ten Fiscal Years**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Proportion of net pension liability	0.013820%	0.014211%	0.013878%	0.013427%						
Proportionate share of the net pension liability (asset)	\$ 808,869	\$ 699,711	\$ 596,683	\$ 435,622						
Covered employee payroll in year of measurement	534,080	224,408	222,875	209,804						
Share of the net pension liability (asset) as a percentage of its covered employee payroll	151.45%	311.80%	267.72%	207.63%						
Plan fiduciary net position as a percentage of total pension liability	53.30%	55.50%	59.97%	66.80%						

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 64,067	\$ 66,408	\$ 27,871	\$ 28,416	\$ 28,827					
Actual contribution	64,067	66,408	27,871	28,416	28,827					
Contribution deficiency (excess)	-	-	-	-	-					
Covered employee payroll	\$ 442,451	\$ 534,080	\$ 224,408	\$ 222,875	\$ 209,804					
Contributions as a percentage of covered employee payroll	14.48%	12.43%	12.42%	12.75%	13.74%					

**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2018**  
**Changes of Assumptions**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

**CITY OF SOUTHGATE, KY**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-HAZARDOUS**  
**Last Ten Fiscal Years**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Proportion of net pension liability	0.000204%	0.000833%	0.003456%	0.010045%						
Proportionate share of the net pension liability (asset)	\$ 4,564	\$ 14,294	\$ 53,057	\$ 120,724						
Covered employee payroll in year of measurement	1,119	219,408	221,967	215,501						
Share of the net pension liability (asset) as a percentage of its covered employee payroll	407.86%	6.51%	23.90%	56.02%						
Plan fiduciary net position as a percentage of total pension liability	49.80%	53.95%	57.52%	63.46%						

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 472	\$ 243	\$ 44,452	\$ 50,941	\$ 46,915					
Actual contribution	472	243	44,452	50,941	46,915					
Contribution deficiency (excess)	-	-	-	-	-					
Covered employee payroll	\$ 2,128	\$ 1,119	\$ 219,408	\$ 221,967	\$ 215,501					
Contributions as a percentage of covered employee payroll	22.18%	21.72%	20.26%	22.95%	21.77%					

**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2018**  
**Changes of Assumptions**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

**CITY OF SOUTHGATE, KENTUCKY**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - NON-HAZARDOUS**  
**Last Ten Fiscal Years**

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.01382%									
Proportionate share of the net OPEB liability (asset)	\$ 277,809									
Covered employee payroll in year of measurement	534,080									
Share of the net OPEB liability (asset) as a percentage of its covered employee payroll	52.02%									
Plan fiduciary net position as a percentage of total OPEB liability	52.40%									

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 20,795	\$ 15,915								
Actual contribution	20,795	15,915								
Contribution deficiency (excess)	-	-								
Covered employee payroll	442,451	534,080								
Contributions as a percentage of covered employee payroll	4.70%	4.73%								

**Notes to Required Supplementary Information**

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

**CITY OF SOUTHGATE, KENTUCKY**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN DISCLOSURE - HAZARDOUS**  
**Last Ten Fiscal Years**

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.000204%									
Proportionate share of the net OPEB liability (asset)	\$ 1,686									
Covered employee payroll in year of measurement	1,119									
Share of the net OPEB liability (asset) as a percentage of its covered employee payroll	150.67%									
Plan fiduciary net position as a percentage of total OPEB liability	59.00%									

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 199	\$ 105								
Actual contribution	199	105								
Contribution deficiency (excess)	-	-								
Covered employee payroll	2,128	1,119								
Contributions as a percentage of covered employee payroll	9.35%	9.38%								

**Notes to Required Supplementary Information**

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

<b>CITY OF SOUTHGATE, KENTUCKY</b> <b>COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS</b> <b>June 30, 2018</b>
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	<u>Municipal Road Aid Fund</u>	<u>Community Center Fund</u>	<u>Total Non-Major Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 86,007	\$ 9,646	\$ 95,653
Accounts receivable			
Intergovernmental	7,296	-	7,296
<b>Total assets</b>	<u>\$ 93,303</u>	<u>\$ 9,646</u>	<u>\$ 102,949</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 684	\$ 684
Rental deposits	-	8,280	8,280
Due to other funds	321,467	-	321,467
<b>Total liabilities</b>	<u>321,467</u>	<u>8,964</u>	<u>330,431</u>
<b>Fund balances</b>			
Restricted	(228,164)	-	(228,164)
Assigned	-	682	682
Unassigned	-	-	-
<b>Total fund balances</b>	<u>(228,164)</u>	<u>682</u>	<u>(227,482)</u>
<b>Total liabilities and fund balances</b>	<u>\$ 93,303</u>	<u>\$ 9,646</u>	<u>\$ 102,949</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, 2018**

	<b>Municipal Road Aid Fund</b>	<b>Community Center Fund</b>	<b>Total Non-Major Funds</b>
<b>Revenues</b>			
Intergovernmental revenue	\$ 76,894	\$ -	\$ 76,894
Charges for services	-	46,360	46,360
Interest	2,186	-	2,186
<b>Total revenues</b>	<u>79,080</u>	<u>46,360</u>	<u>125,440</u>
<b>Expenditures</b>			
Streets	360,128	-	360,128
Community Center	-	23	23
<b>Total expenditures</b>	<u>360,128</u>	<u>23</u>	<u>360,151</u>
<b>Excess (deficit) of revenues over expenditures</b>	(281,048)	46,337	(234,711)
<b>Other financing sources (uses)</b>			
Operating transfers out	-	(47,000)	(47,000)
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	(281,048)	(663)	(281,711)
<b>Fund balances, beginning of year</b>	52,884	1,345	54,229
<b>Fund balances, end of year</b>	<u>\$ (228,164)</u>	<u>\$ 682</u>	<u>\$ (227,482)</u>

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

**CITY OF SOUTHGATE, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET AND ACTUAL - MUNICIPAL ROAD AID FUND**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
<b>Budgetary fund balance, July 1</b>	\$ 1,465	\$ 51,419	\$ 52,884	\$ 52,884	\$ -
<b>Resources (inflows):</b>					
Estimated revenues	365,012	(287,837)	77,175	76,894	(281)
Interest	-	-	-	2,186	2,186
Proceeds of long term debt	-	-	-	-	-
<b>Amounts available for appropriation</b>	<u>366,477</u>	<u>(236,418)</u>	<u>130,059</u>	<u>131,964</u>	<u>1,905</u>
<b>Charges to appropriations (outflows):</b>					
Streets	<u>366,477</u>	<u>(241,477)</u>	<u>125,000</u>	<u>360,128</u>	<u>(235,128)</u>
<b>Total charges to appropriations</b>	<u>366,477</u>	<u>(241,477)</u>	<u>125,000</u>	<u>360,128</u>	<u>(235,128)</u>
Transfers to (from) fund	-	-	-	-	-
<b>Budgetary fund balance, June 30</b>	<u>\$ -</u>	<u>\$ 5,059</u>	<u>\$ 5,059</u>	<u>\$ (228,164)</u>	<u>\$ (233,223)</u>

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

**CITY OF SOUTHGATE, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE**  
**BUDGET AND ACTUAL - COMMUNITY CENTER FUND**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
<b>Budgetary fund balance, July 1</b>	\$ 62	\$ 1,283	\$ 1,345	\$ 1,345	\$ -
<b>Resources (inflows):</b>					
Rental and sales income	45,271	-	45,271	46,360	1,089
Transfer to (from) fund	(45,221)	-	(45,221)	(47,000)	(1,779)
<b>Amounts available for appropriation</b>	<u>112</u>	<u>1,283</u>	<u>1,395</u>	<u>705</u>	<u>(690)</u>
<b>Charges to appropriations (outflows):</b>					
Community Center	<u>50</u>	<u>-</u>	<u>50</u>	<u>23</u>	<u>27</u>
<b>Total charges to appropriations</b>	<u>50</u>	<u>-</u>	<u>50</u>	<u>23</u>	<u>27</u>
<b>Budgetary fund balance, June 30</b>	<u>\$ 62</u>	<u>\$ 1,283</u>	<u>\$ 1,345</u>	<u>\$ 682</u>	<u>\$ (663)</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, 2018 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 January 7, 2019.

**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  
January 7, 2019