

CITY OF SOUTHGATE, KENTUCKY

FINANCIAL STATEMENTS AND

INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2016

CITY OF SOUTHGATE, KENTUCKY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2016

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CITY OF SOUTHGATE, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2016

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, 2016, 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, 2016 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5–9, the budgetary comparison schedule on page 31, and the pension disclosure on pages 32–33 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 34–37 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 3, 2017 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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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 3, 2017

**CITY OF SOUTHGATE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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, 2016. 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:

<u>Funds</u>	<u>FYE 2015 Amount</u>	<u>FYE 2016 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 15</u>
General	\$ 482,838	\$ 509,498	5.52%	\$ 26,660
Municipal Road Aid	42,124	1,453	-96.55%	(40,671)
Community Center	(4,434)	62	-101.40%	4,496
Total Fund Balance	\$ 520,528	\$ 511,013	-1.83%	\$ (9,515)

The General Fund balance increased primarily due to expenditures being \$78,627 under budget. Actual General Fund expenditures were \$26,660 under revenues received (including transfers from other funds). The Municipal Road Aid fund decreased due to road expenditures in the current year that were funded from prior year revenues. The Community Center fund increased slightly because the \$39,500 transfer made to the General Fund was less 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, 2016, net position for all of the changed as follows:

	Governmental Activities
Beginning Net Position	\$ 2,223,334
Increase in Net Position	122,236
Prior period adjustment	(41,108)
	<u>\$ 2,304,462</u>
Ending Net Position	<u>\$ 2,304,462</u>

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	2015	2016
Current Assets	\$ 573,350	\$ 582,931
Capital Assets, Net	3,635,546	3,691,055
Deferred Outflows of Resources	115,539	160,498
Total Assets and Deferred Outflows of Resources	<u>4,324,435</u>	<u>4,434,484</u>
Current Liabilities	146,794	137,236
Noncurrent Liabilities	1,893,808	1,923,635
Deferred Inflows of Resources	60,499	69,151
Total Liabilities and Deferred Inflows of Resources	<u>2,101,101</u>	<u>2,130,022</u>
Net Position	<u>\$ 2,223,334</u>	<u>\$ 2,304,462</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, 2016, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2015 Amount	FYE 2016 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 15
Property Tax	\$ 1,054,725	\$ 1,077,243	2.1%	\$ 22,518
Franchise Fees	29,408	25,337	-13.8%	(4,071)
Telecommunication Tax	45,102	45,100	0.0%	(2)
Payroll Tax	464,178	389,150	-16.2%	(75,028)
Insurance Premium Tax	331,425	342,580	3.4%	11,155
Licenses and Permits	31,550	31,675	0.4%	125
Intergovernmental	123,846	276,666	123.4%	152,820
Fines, forfeitures, penalties	18,730	47,036	151.1%	28,306
Charges for Services	263,282	263,036	-0.1%	(246)
Investment Income	1,184	1,456	23.0%	272
Sale of Surplus Property	-	576		576
Loan Proceeds	175,000	200,000	14.3%	25,000
Miscellaneous	59,664	4,740	-92.1%	(54,924)
Total Revenues	\$ 2,598,094	\$ 2,704,595	4.1%	\$ 106,501

Payroll and Occupational taxes decreased 16.2% due to fluctuations in payroll expense and revenues of taxpaying entities. Intergovernmental revenues increased due to a one-time Municipal Road Aid grant of \$170,000 in FY 2016 that was in addition to the regular annual allocation. Fines and forfeitures increased 151.1% due to two property citations totalling \$29,990 that were paid off in FY 2016 for prior year liens. Loan proceeds increased 14.3% due to a slight increase 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 decreased 92.1% due to \$52,520 in Insurance Proceeds that were received in FY 2015 related to water damage at the Community Center.

Expenditures	FYE 2015 Amount	FYE 2016 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 15
General Government	\$ 274,237	\$ 280,133	2.1%	\$ 5,896
Police	722,734	758,278	4.9%	35,544
Fire/EMS	288,580	314,219	8.9%	25,639
Waste Collection	190,409	191,259	0.4%	850
Streets	267,502	199,565	-25.4%	(67,937)
Garage	127,359	134,927	5.9%	7,568
Community Center	211,348	111,151	-47.4%	(100,197)
Parks	52,175	77,416	48.4%	25,241
Sewers	5,457	489	-91.0%	(4,968)
Capital Outlay	-	293,859		293,859
Debt Service	359,663	352,814	-1.9%	(6,849)
Total Expenditures	\$ 2,499,464	\$ 2,714,110	8.6%	\$ 214,646

Streets expense decreased 25.4% and Capital Outlay increased due to special street maintenance projects that were reported as capital outlay in FY 2016. The Community Center expenses decreased due to FY 2015 repairs from water damage. Parks expenses increased 48.4% due to major maintenance work in the park related to water drainage.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2015	2016
Construction in Progress	\$ -	\$ -
Land	370,323	370,323
Buildings	3,208,709	3,208,709
Land Improvements	39,867	39,867
Infrastructure	1,310,605	1,596,864
Equipment	666,125	666,125
Vehicles	438,405	446,005
Totals	\$ 6,034,034	\$ 6,327,893

Debt

The City has \$1,337,484 in outstanding debt at June 30, 2016, a 6.56% decrease from 2015 as detailed below:

	Governmental Activities	
	2015	2016
Firehouse Note Payable	\$ 1,074,122	\$ 1,038,873
Storm Sewer Note Payable	313,706	295,065
Backhoe Lease	9,316	-
Citizens - 2013 Loan	8,424	-
Citizens - 2014 TAN	-	-
Citizens - 2013 Loan	25,866	5,275
Totals	\$ 1,431,434	\$ 1,339,213

GENERAL BUDGETARY HIGHLIGHTS

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

Actual revenues was less than budgeted amounts by \$95,989 across all funds, mainly due to unanticipated decreases in Payroll and Occupation Tax Revenues and Tangible Property tax revenues. Actual expenditures came in under budget by \$78,627 due primarily to police, street, community center and parks expenses that were less than budget. As a result, the City ended the year with an increase of \$26,660 in the Fund Balance of the General Fund.

GASB 68 PENSION LIABILITY RECOGNITION

As of June 30, 2016, the City is required, by Governmental Accounting Standards Board Statement No. 68, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. Due to this requirement, the 2015 Statement of Net Position above was restated by (\$41,108) to include the beginning balance of the net pension liability at June 30, 2015. The net pension liability, \$649,740, the deferred outflow of resources, \$160,498, and the deferred inflow of resources, \$69,151, on the Statement of Net Position at June 30, 2016 are a function of this required reporting. Detailed information on this pension recognition can be found in Note J in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2017 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

The City is allowed by law to set an ad valorem rate that will generate 4% more revenue than last year. This year the Council voted to take the allowable 2.0% increase over the compensating rate. The rate was set at 0.562 per hundred for the fiscal year ended June 30, 2016 vs. 0.545 in fiscal year 2015. The rate for the firehouse loan was set at 0.5387 per hundred for the fiscal year ended June 30, 2015 and remained the same for 2016.

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, 2016
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Assets	Governmental Activities
Current Assets	
Cash and cash equivalents	\$ 391,700
Receivables	
Property taxes	13,247
Intergovernmental	8,855
Other	169,129
Other assets	-
Total Current Assets	582,931
Noncurrent Assets	
Capital Assets	
Land and construction in progress	370,323
Capital assets being depreciated	5,957,570
Less: accumulated depreciation	(2,636,838)
Net Capital Assets	3,691,055
Total Assets	4,273,986
Deferred Outflows of Resources	
Deferred outflow of resources related to pension	160,498
Total Deferred Outflows of Resources	160,498
Total Assets and Deferred Outflows of Resources	4,434,484
Liabilities	
Current Liabilities	
Accounts payable	20,569
Accrued liabilities	36,263
Deferred revenue	15,086
Current portion of notes payable	65,318
Total Current Liabilities	137,236
Noncurrent Liabilities	
Notes payable	1,273,895
Net pension liability	649,740
Total Noncurrent Liabilities	1,923,635
Total Liabilities	2,060,871
Deferred Inflow of Resources	
Deferred inflow of resources related to pensions	69,151
Total Liabilities and Deferred Inflows of Resources	2,130,022
Net Position	
Net investment in capital assets	2,351,842
Restricted	55,037
Unrestricted	(102,417)
Total Net Position	\$ 2,304,462

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

CITY OF SOUTHGATE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Administration	\$ 307,187	\$ 20,628	\$ -	\$ -	\$ (286,559)
Police	785,545	4,437	31,112	-	(749,996)
Fire and EMS	386,322	-	-	-	(386,322)
Waste collection	191,259	193,975	-	-	2,716
Streets	313,392	-	245,554	-	(67,838)
Garage	164,653	-	-	-	(164,653)
Community Center	146,196	43,996	-	-	(102,200)
Parks	81,804	-	-	-	(81,804)
Sewers	6,001	-	-	-	(6,001)
Total Governmental Activities	\$2,382,359	\$ 263,036	\$ 276,666	\$ -	(1,842,657)

General Revenues

Taxes	
Property taxes	1,077,243
Franchise fees	25,337
Telecommunications taxes	45,100
Payroll license	389,150
Insurance premium taxes	342,580
Licenses and permits	31,675
Investment income	1,456
Fines, forfeitures, penalties	47,036
Gain on sale of assets	576
Miscellaneous	4,740
Total general revenues	1,964,893
Change in net position	122,236
Net position, beginning of year	2,223,334
Prior period adjustment	(41,108)
Net position, end of year	\$ 2,304,462

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

CITY OF SOUTHGATE, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

		2016		
	General	Other	Total	(Memo Only)
	Fund	Governmental	Governmental	2015
		Funds	Funds	Totals
Assets				
Cash and cash equivalents	\$ 295,083	\$ 96,617	\$ 391,700	\$ 391,302
Receivables				
Taxes	13,247	-	13,247	11,823
Intergovernmental	1,897	6,958	8,855	9,109
Other	169,129	-	169,129	161,016
Other assets	-	-	-	100
Due from other funds	92,684	-	92,684	10,690
Total Assets	\$ 572,040	\$ 103,575	\$ 675,615	\$ 584,040
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 20,473	\$ 96	\$ 20,569	\$ 17,718
Accrued liabilities	26,983	9,280	36,263	25,291
Deferred revenue	15,086	-	15,086	9,813
Due to other funds	-	92,684	92,684	10,690
Total Liabilities	62,542	102,060	164,602	63,512
Fund Balances				
Unspendable	-	-	-	100
Restricted	53,584	1,453	55,037	92,152
Committed	500	-	500	500
Assigned	-	62	62	(4,434)
Unassigned	455,414	-	455,414	432,210
Total Fund Balances	509,498	1,515	511,013	520,528
Total Liabilities and Fund Balances	\$ 572,040	\$ 103,575	\$ 675,615	\$ 584,040

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

CITY OF SOUTHGATE, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2016

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

Total fund balance per balance sheet	\$ 511,013
Capital assets of \$6,327,893 less accumulated depreciation of (\$2,636,838), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,691,055
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore not reportable in the funds.	
Deferred outflow of resources	160,498
Deferred inflow of resources	(69,151)
Long-term liabilities, including leases payable, and net pension liability are not due and payable in the current period and therefore are not reported as liabilities in governmental funds.	
Net pension liability	(649,740)
Notes payable	<u>(1,339,213)</u>
Net position of governmental activities	<u>\$ 2,304,462</u>

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, 2016

	2016			(Memo Only)
	General	Other	Total	2015
	Fund	Governmental	Governmental	Totals
		Funds	Funds	
Revenues				
Property taxes	\$ 1,077,243	\$ -	\$ 1,077,243	\$ 1,054,725
Franchise fees	25,337	-	25,337	29,408
Telecommunications taxes	45,100	-	45,100	45,102
Payroll license	389,150	-	389,150	464,178
Insurance premium taxes	342,580	-	342,580	331,425
Licenses and permits	31,675	-	31,675	31,550
Intergovernmental	10,165	245,554	255,719	100,736
Fines, forfeitures, penalties	47,036	-	47,036	18,730
KLEFPF Income	20,947	-	20,947	23,110
Charges for services	219,040	43,996	263,036	263,282
Investment income	1,422	34	1,456	1,184
Miscellaneous	4,740	-	4,740	59,664
Total Revenues	<u>2,214,435</u>	<u>289,584</u>	<u>2,504,019</u>	<u>2,423,094</u>
Expenditures				
Current Expenditures				
Administration	280,133	-	280,133	274,237
Police	758,278	-	758,278	722,734
Fire and EMS	314,219	-	314,219	288,580
Waste collection	191,259	-	191,259	190,409
Streets	199,565	-	199,565	267,502
Garage	134,927	-	134,927	127,359
Community Center	111,151	-	111,151	211,348
Parks	77,416	-	77,416	52,175
Sewers	489	-	489	5,457
Capital outlay	7,600	286,259	293,859	-
Debt service	352,814	-	352,814	359,663
Total Expenditures	<u>2,427,851</u>	<u>286,259</u>	<u>2,714,110</u>	<u>2,499,464</u>
Excess (Deficit) of Revenues				
Over Expenditures	<u>(213,416)</u>	<u>3,325</u>	<u>(210,091)</u>	<u>(76,370)</u>
Other Financing Sources (Uses)				
Loan/lease proceeds	200,000	-	200,000	175,000
Gain on sale of assets	576	-	576	-
Operating transfers in	39,500	-	39,500	52,000
Operating transfers out	-	(39,500)	(39,500)	(52,000)
Total Other Financing Sources (Uses)	<u>240,076</u>	<u>(39,500)</u>	<u>200,576</u>	<u>175,000</u>
Excess (Deficit) of Revenues and Other				
Financing Sources Over Expenditures				
and Other Financing Uses	<u>26,660</u>	<u>(36,175)</u>	<u>(9,515)</u>	<u>98,630</u>
Fund Balances, Beginning of Year	<u>482,838</u>	<u>37,690</u>	<u>520,528</u>	<u>421,898</u>
Fund Balances, End of Year	<u>\$ 509,498</u>	<u>\$ 1,515</u>	<u>\$ 511,013</u>	<u>\$ 520,528</u>

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

CITY OF SOUTHGATE, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016
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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (9,515)
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Governmental funds report capital outlays as expenditures. However, for governmental activities those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	293,859	
Depreciation expense	<u>(238,350)</u>	
		55,509

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

Pension contributions	72,323
Costs of benefits earned	<u>(88,302)</u>

Lease proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(200,000)
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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>292,221</u>
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Change in net position of governmental activities	<u>\$ 122,236</u>
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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, 2016

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, 2016

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Governmental Fund Types

The City reports the following governmental funds:

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

Cash and Cash Equivalents

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

The City is authorized by state statute to invest in:

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

Investments

In accordance with the *Government Accounting Standards Board*, investments held at June 30, 2016 are recorded at fair value based on quoted market prices.

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

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, 2016 are recorded as prepaid items.

Capital Assets

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

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

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

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

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, 2016

Budgets

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

Accrued Liabilities and Long-term Obligations

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

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

Fund Equity

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

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

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

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

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

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

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

Operating Revenues and Expenses

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

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

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 \$391,700 at June 30, 2016.

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

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, 2016, 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, 2016 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	\$ 39,500
		<u>\$ 39,500</u>

CITY OF SOUTHGATE, KENTUCKY**Notes to Financial Statements****June 30, 2016****NOTE H – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 370,323	\$ -	\$ -	\$ 370,323
Construction in progress	-	-	-	-
Total Capital Assets Not Being Depreciated	370,323	-	-	370,323
Depreciable Capital Assets				
Infrastructure	1,310,605	286,259	-	1,596,864
Buildings	3,208,709	-	-	3,208,709
Land improvements	39,867	-	-	39,867
Equipment	666,125	-	-	666,125
Vehicles	438,405	7,600	-	446,005
Total Depreciable Capital Assets	5,663,711	293,859	-	5,957,570
Total Capital Assets at Historical Cost	6,034,034	293,859	-	6,327,893
Less Accumulated Depreciation				
Infrastructure	331,999	106,458	-	438,457
Buildings	1,178,242	64,174	-	1,242,416
Land improvements	7,661	1,595	-	9,256
Equipment	594,029	12,880	-	606,909
Vehicles	286,557	53,243	-	339,800
Total Accumulated Depreciation	2,398,488	238,350	-	2,636,838
Depreciable Capital Assets, Net	3,265,223	55,509	-	3,320,732
Total Capital Assets, Net	\$ 3,635,546	\$ 55,509	\$ -	\$ 3,691,055

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

Current year depreciation was charged to governmental functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
Administration	\$ 12,888
Fire and EMS	20,113
Police	41,466
Streets	106,457
Garage	23,242
Park	992
Community Center	33,192
Total Depreciation	<u>\$ 238,350</u>

NOTE I – LONG-TERM DEBT

Storm Sewer Lease

On April 2, 2007, the City entered into a lease agreement with the Kentucky League of Cities for replacement of a collapsed storm sewer. The debt proceeds are held in an acquisition trust account at U.S. Bank in Louisville, Kentucky. The City began making monthly payments in May 2007. The debt has a variable interest rate and matures in May of 2027. The balance outstanding at June 30, 2016 is \$293,336. City assets act as collateral for the loan. The remaining maturities on the Storm Sewer lease are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 23,034	\$ 7,915	\$ 30,949
2018	22,281	8,478	30,759
2019	23,304	7,770	31,074
2020	24,369	7,044	31,413
2021	25,489	6,252	31,741
Thereafter	176,588	19,200	195,788
Total	<u>\$ 295,065</u>	<u>\$ 56,659</u>	<u>\$ 351,724</u>

Firehouse Lease

On June 11, 2009, the City entered into a lease agreement with the Kentucky League of Cities to construct, equip, and maintain a firehouse and related facilities in the City of Southgate. All rights, title, and interest of the City has been assigned to U.S. Bank in Louisville, Kentucky, as trustee under a Trust Indenture dated as of December 1, 2008. The City began making monthly payments in July, 2009. The debt has an interest rate of 3.98% and matures on June 1, 2034. The balance outstanding at June 30, 2016 is \$1,038,873. The building acts as collateral for the loan.

CITY OF SOUTHGATE, KENTUCKY**Notes to Financial Statements****June 30, 2016**

The remaining maturities on the Firehouse are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 37,009	\$ 50,234	\$ 87,243
2018	38,851	48,395	87,246
2019	40,790	46,460	87,250
2020	42,809	44,446	87,255
2021	44,944	42,315	87,259
Thereafter	834,470	300,410	1,134,880
Total	<u>\$ 1,038,873</u>	<u>\$ 532,260</u>	<u>\$ 1,571,133</u>

Backhoe Lease

In September 2011, the City entered into a lease/purchase agreement with Farmers Bank & Capital Trust Company to purchase a backhoe. The term of the lease is 54 months with monthly payments of \$1,165. The debt has an interest rate of 6% and matures in January 2016. The balance of this lease was paid in full at June 30, 2016.

2012 Citizens Bank Loan

On September 19, 2012, the City entered into a loan agreement with Citizens Bank in the amount of \$96,081 to purchase two police cruisers and a pick-up truck. The term of the loan is 36 months with monthly payments of \$2,830. The debt has an interest rate of 3.78% and matures in September of 2015. The balance of this lease was paid in full at June 30, 2016.

2014 Citizens Bank Loan

On September 27, 2013, the City entered into a loan agreement with Citizens Bank in the amount of \$60,125 to purchase two police cruisers. The term of the loan is 36 months with monthly payments of \$1,771. The debt has an interest rate of 3.78% and matures in September of 2016. The balance outstanding at June 30, 2016 is \$5,275. The vehicles act as collateral for the loan. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 5,275	\$ -	\$ 5,275
Total	<u>\$ 5,275</u>	<u>\$ -</u>	<u>\$ 5,275</u>

CITY OF SOUTHGATE, KENTUCKY**Notes to Financial Statements****June 30, 2016****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, 2016:

	Balance June 30, 2015	Additions	Retirements/ Repayments	Balance June 30, 2016	Amounts Due Within 1 Year
Firehouse	\$ 1,074,122	\$ -	\$ (35,249)	\$ 1,038,873	\$ 37,009
Storm Sewer	313,706	-	(18,641)	295,065	23,034
Backhoe	9,316	-	(9,316)	-	-
Citizens Bank loan -2013	8,424	-	(8,424)	-	-
Citizens Bank - TAN	-	200,000	(200,000)	-	-
Citizens Bank loan -2014	25,866	-	(20,591)	5,275	5,275
Total	\$ 1,431,434	\$ 200,000	\$ (292,221)	\$ 1,339,213	\$ 65,318

NOTE J – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System.

General information about the County Employees Retirement System Non-Hazardous and Hazardous ("CERS")

Plan description-Employees are covered by the CERS, a cost-sharing multiple-employer defined benefit pension 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/>.

Benefits provided- CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five year's service. For retirement purposes, employees are grouped into three tiers, based on hire date:

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

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
		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 year's 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 or 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 or 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 contributions by the employee are based on the tier:

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

Contributions

The City contributed 17.06%, of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016. The City contributed 32.95%, of which 20.26% was for the pension fund and 12.69% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$38,284, of which \$27,871 was for the pension fund and \$10,413 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$72,295, of which \$44,452 was for the pension fund and \$27,843 was for the health insurance fund.

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

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

At June 30, 2016, the City reported a liability of \$649,740 (\$596,683 – non-hazardous and \$53,057 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2016, the City's employer allocation proportion was 0.013878% of the total CERS non-hazardous duty employees and 0.003456% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$59,040.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 6,111	\$ -
Net difference between projected and actual earnings on plan investments	5,682	-
Changes of assumptions	64,754	-
Changes in proportion and differences between City contributions and proportionate share of contributions	11,628	69,151
City contributions subsequent to the measurement date	72,323	-
Total	<u>\$ 160,498</u>	<u>\$ 69,151</u>

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.51 years. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period.

Deferred Outflows and Inflows of Resources

In FY 2016, \$160,498 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. In FY 2016, \$69,151 was recognized as a deferred inflow of resources resulting from changes in proportion share.

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

The City's contributions subsequent to the measurement date of \$78,393 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. 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
2017	\$ 12,260
2018	12,260
2019	(2,725)
2020	(2,771)
2021	-
	<u>\$ 19,024</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
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
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, 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

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	100%	

CITY OF SOUTHGATE, KENTUCKY

Notes to Financial Statements

June 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	<u>Discount Rate</u>	<u>City's Proportionate Share of Net Pension Liability</u>
1% decrease	6.50%	\$ 829,654
Current discount rate	7.50%	649,740
1% increase	8.50%	496,073

Plan Fiduciary Net Position

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

NOTE K – FIRE AND LIFE SQUAD PROTECTION

The City contracts with the Southgate Volunteer Fire Department for fire protection and with the Southgate Wilder EMS for life squad service. These annual contracts totaled \$269,000 for fire protection and \$25,000 for life squad service during the fiscal year ended June 30, 2016.

NOTE L – PRIOR PERIOD ADJUSTMENT

The City has recorded an adjustment to the Beginning Net Position of (\$41,108) at July 1, 2015. This adjustment, shown on page 11, accounts for the health insurance fund portion of the pension contributions at June 30, 2015 and is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

NOTE M – SUBSEQUENT EVENTS

Management has considered subsequent events through January 3, 2017, which represents the date financial statements were available to be issued. The City did not have any events subsequent to June 30, 2016 through January 3, 2017 to disclose.

CITY OF SOUTHGATE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2016

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 307,517	\$ 175,321	\$ 482,838	\$ 482,838	-
Resources (inflows)					
Estimated revenues	2,419,300	92,288	2,511,588	2,415,011	(96,577)
Transfer of Funds	-	-	-	-	-
Amounts available for appropriation	2,726,817	267,609	2,994,426	2,897,849	(96,577)
Charges to appropriations (outflows)					
Administration	449,215	28,214	477,429	481,640	(4,211)
Police	816,329	(9,894)	806,435	792,474	13,961
Streets	232,651	10,055	242,706	212,884	29,822
Sewers	34,573	-	34,573	24,642	9,931
Waste Collection	191,152	-	191,152	191,259	(107)
Fire	402,691	(682)	402,009	401,458	551
Community Center	123,289	2,092	125,381	111,151	14,230
Garage	126,832	5,221	132,053	134,927	(2,874)
Parks	67,299	27,441	94,740	77,416	17,324
Total charges to appropriations	2,444,031	62,447	2,506,478	2,427,851	78,627
Transfers in (out)	50,032	(4,434)	45,598	39,500	(6,098)
Budgetary fund balance, June 30	\$ 332,818	\$ 200,728	\$ 533,546	\$ 509,498	\$ (24,048)

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)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.013878%	0.013427%								
Proportionate share of the net pension liability (asset)	\$ 596,683	\$ 435,622								
Covered employee payroll in year of measurement	222,875	209,804								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	267.72%	207.63%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 38,284	\$ 39,382	\$ 39,632							
Actual contribution	38,284	39,382	39,632							
Contribution deficiency (excess)		-	-							
Covered employee payroll	\$ 224,408	\$ 222,875	\$ 209,804							
Contributions as a percentage of covered employee payroll	17.06%	17.67%	18.89%							

**Notes to Required Supplementary Information
For the Year Ended June 30, 2016
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, 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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.003456%	0.010045%								
Proportionate share of the net pension liability (asset)	\$ 53,057	\$ 120,724								
Covered employee payroll in year of measurement	221,967	215,501								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	23.90%	56.02%								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 72,295	\$ 76,157	\$ 76,934							
Actual contribution	72,295	76,157	76,934							
Contribution deficiency (excess)		-	-							
Covered employee payroll	\$ 219,408	\$ 221,967	\$ 215,501							
Contributions as a percentage of covered employee payroll	32.95%	34.31%	35.70%							

Notes to Required Supplementary Information
For the Year Ended June 30, 2016
Changes of Assumptions

The net pension liability as of June 30, 2016, is based on the June 30, 2015, 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 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS June 30, 2016

	Municipal Road Aid Fund	Community Center Fund	Total Non-Major Funds
Assets			
Cash and cash equivalents	\$ 84,779	\$ 11,838	\$ 96,617
Accounts receivable			
Intergovernmental	6,958	-	6,958
Total Assets	\$ 91,737	\$ 11,838	\$ 103,575
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 96	\$ 96
Rental deposits	-	9,280	9,280
Due to other funds	90,284	2,400	92,684
Total Liabilities	90,284	11,776	102,060
Fund Balances			
Restricted	1,453	-	1,453
Assigned	-	62	62
Unassigned	-	-	-
Total Fund Balances	1,453	62	1,515
Total Liabilities and Fund Balances	\$ 91,737	\$ 11,838	\$ 103,575

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, 2016

	Municipal Road Aid Fund	Community Center Fund	Total Non-Major Funds
Revenues			
Intergovernmental revenue	\$ 245,554	\$ -	\$ 245,554
Charges for services	-	43,996	43,996
Interest	34		34
Total Revenues	245,588	43,996	289,584
Expenditures			
Streets	286,259	-	286,259
Community Center	-	-	-
Total Expenditures	286,259	-	286,259
Excess (Deficit) of Revenues Over Expenditures	(40,671)	43,996	3,325
Other Financing Sources (Uses)			
Operating transfers out	-	(39,500)	(39,500)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(40,671)	4,496	(36,175)
Fund Balances, Beginning of Year	42,124	(4,434)	37,690
Fund Balances, End of Year	\$ 1,453	\$ 62	\$ 1,515

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, 2016

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 56,572	\$ (14,448)	\$ 42,124	\$ 42,124	\$ -
Resources (inflows):					
Estimated Revenues	242,000	3,000	245,000	245,554	554
Interest	12	-	12	34	22
Proceeds of Long Term Debt	400,000	(400,000)	-	-	-
Amounts available for appropriation	<u>698,584</u>	<u>(411,448)</u>	<u>287,136</u>	<u>287,712</u>	<u>576</u>
Charges to appropriations (outflows):					
Debt Service	59,429	(59,429)	-	-	-
Streets	618,319	(331,642)	286,677	286,259	418
Total charges to appropriations	<u>677,748</u>	<u>(391,071)</u>	<u>286,677</u>	<u>286,259</u>	<u>418</u>
Transfers to (from) fund	-	-	-	-	-
Budgetary fund balance, June 30	<u>\$ 20,836</u>	<u>\$ (20,377)</u>	<u>\$ 459</u>	<u>\$ 1,453</u>	<u>\$ 994</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, 2016

	Original Budget	Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 5,732	\$ (10,166)	\$ (4,434)	\$ (4,434)	\$ -
Resources (Inflows):					
Rental and sales income	50,082	-	50,082	43,996	(6,086)
Transfer to (from) fund	(50,032)	4,434	(45,598)	(39,500)	6,098
Amounts available for appropriation	<u>5,782</u>	<u>(5,732)</u>	<u>50</u>	<u>62</u>	<u>12</u>
Charges to appropriations (outflows):					
Community Center	<u>50</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>50</u>
Total charges to appropriations	<u>50</u>	<u>-</u>	<u>50</u>	<u>-</u>	<u>50</u>
Budgetary fund balance, June 30	<u>\$ 5,732</u>	<u>\$ (5,732)</u>	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 62</u>

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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**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, 2016 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 3, 2017.

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



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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 3, 2017