

CITY OF SOUTHGATE, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2020

CITY OF SOUTHGATE, KENTUCKY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended June 30, 2020

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CITY OF SOUTHGATE, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2020

Mayor

Jim Hamberg

Council Members

Joe Anderson

Pat Hayley

Leanna Homandberg

Paul Melville

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, 2020 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2020 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 39, and the pension and OPEB disclosure information on pages 40-43 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 44-47 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 18, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Southgate, Kentucky's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 18, 2021

**CITY OF SOUTHGATE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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, 2020. 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 2019 Amount	FYE 2020 Amount	Percentage Increase/ (Decrease)	Increase Incr/(Decr) From FYE 19
General	\$ 1,048,397	\$ 1,158,754	10.53%	\$ 110,357
Municipal Road Aid	73,815	873	-98.82%	(72,942)
Community Center	2,484	90	-96.38%	(2,394)
Total fund balance	\$ 1,124,696	\$ 1,159,717	3.11%	\$ 35,021

The General Fund balance increased primarily due to expenditures being \$34,841 under budget and revenues being \$223,881 over budget. Actual General Fund expenditures were \$110,357 less than revenues received (including transfers from other funds). The Municipal Road Aid fund decreased by \$72,942 due to the completion of major street projects. The Community Center fund decreased due the reduction in rental and sales income caused by the COVID-19 pandemic.

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, 2020, net position for all of the changed as follows:

	Governmental Activities
	<hr/>
Beginning net position	\$ 2,136,128
Change in net position	325,016
	<hr/>
Ending net position	<u>\$ 2,461,144</u>

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	<hr/>	<hr/>
	2019	2020
	<hr/>	<hr/>
Current assets	\$ 1,271,118	\$ 1,574,126
Capital assets, net	3,791,555	3,942,884
Deferred outflows of resources	367,154	453,685
	<hr/>	<hr/>
Total assets and deferred outflows of resources	5,429,827	5,970,695
	<hr/>	<hr/>
Current liabilities	273,855	434,881
Noncurrent liabilities	2,832,236	2,762,717
Deferred inflows of resources	187,608	311,953
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	3,293,699	3,509,551
	<hr/>	<hr/>
Net position	<u>\$ 2,136,128</u>	<u>\$ 2,461,144</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, 2020, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2019 Amount	FYE 2020 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 19
Property tax	\$ 1,154,958	\$ 1,197,389	3.7%	\$ 42,431
Franchise fees	31,486	66,987	112.8%	35,501
Telecommunication tax	56,510	47,789	-15.4%	(8,721)
Payroll tax	545,205	571,094	4.7%	25,889
Insurance premium tax	419,662	422,348	0.6%	2,686
Licenses and permits	32,155	32,280	0.4%	125
Intergovernmental	129,301	515,190	298.4%	385,889
Fines, forfeitures, penalties	12,040	26,324	118.6%	14,284
Charges for services	251,527	228,579	-9.1%	(22,948)
Investment income	25,198	16,218	-35.6%	(8,980)
Loan proceeds	617,780	30,106	-95.1%	(587,674)
Miscellaneous	10,198	51,506	405.1%	41,308
Total Revenues	\$ 3,286,020	\$ 3,205,810	-2.4%	\$ (80,210)

Payroll and Occupational taxes increased 4.7% due to fluctuations in payroll expense and revenues of taxpaying entities. Intergovernmental revenues increased 298.4% due to the City receiving Cares Funding and FEMA grants. Fines and forfeitures increased 118.6% due to slight increases in penalties and interest and property citations. Miscellaneous revenues increased 405.1% due to the City receiving an insurance refund for flood damage.

Expenditures	FYE 2019 Amount	FYE 2020 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 19
General Government	\$ 338,764	\$ 341,619	0.8%	\$ 2,855
Police	865,733	865,505	0.0%	(228)
Fire/EMS	368,514	408,962	11.0%	40,448
Waste Collection	175,514	175,514	0.0%	-
Streets	213,987	176,467	-17.5%	(37,520)
Garage	153,664	223,210	45.3%	69,546
Community Center	94,563	129,818	37.3%	35,255
Parks	104,276	185,343	77.7%	81,067
Sewers	-	-		-
Capital Outlay	287,532	455,560	58.4%	168,028
Debt Service	224,314	208,791	-6.9%	(15,523)
Total Expenditures	\$ 2,826,861	\$ 3,170,789	12.2%	\$ 343,928

Streets expense decreased 17.5% primarily due to the completion of street projects. Capital Outlay increased due to the trail project started in fiscal year 2020 and the purchase of a police vehicle. The Community Center expenses increased 37.3% due to some major maintenance performed on the Community Center building. Parks expenses increased primarily due to park maintenance and trail projects

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2019	2020
Construction in progress	\$ -	\$ -
Land	378,323	378,323
Buildings	3,208,709	3,208,709
Land improvements	39,867	39,867
Infrastructure	2,172,286	2,585,725
Equipment	666,125	673,720
Vehicles	700,832	735,358
Totals	<u>\$ 7,166,142</u>	<u>\$ 7,621,702</u>

Debt

The City has \$1,735,704 in outstanding debt at June 30, 2020, a 5.47% decrease from 2019 as detailed below:

	Governmental Activities	
	2019	2020
Firehouse note payable	\$ 922,223	\$ 879,414
Storm sewer note payable	228,426	204,146
Wesbanco Bank - 2016 vehicle loan	3,874	-
Wesbanco Bank - 2017 vehicle loan	5,895	-
Wesbanco Bank - 2018 vehicle loan	18,741	13,024
Wesbanco Bank - 2018 vehicle loan	57,611	43,061
Wesbanco Bank - 2019 vehicle loan	37,801	27,606
Wesbanco Bank - 2020 vehicle loan	-	26,786
Wesbanco - 2014 TAN Line of credit	-	-
Series 2018B revenue bond	561,667	541,667
Totals	<u>\$ 1,836,238</u>	<u>\$ 1,735,704</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 \$347,724 across all funds, mainly due to proceeds from FEMA grant and Cares Act revenues. Actual General Fund expenditures came in under budget by \$34,841 due primarily to administration, streets, community center, and garage expenses that were less than budgeted. As a result, the City ended the year with an increase of \$35,021 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, 2019, 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, \$1,157,134, the deferred outflow of resources, \$453,685, and the deferred inflow of resources, \$311,953, on the Statement of Net Position at June 30, 2020 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 2021 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 for 0.567 per hundred for the fiscal year ended June 30, 2018, at 0.594 for fiscal year ended June 30, 2019, and at 0.596 for fiscal year ended June 30, 2020.

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 through 2020.

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, 2020
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	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 1,012,556
Receivables	
Property taxes	7,667
Intergovernmental	317,515
Other	236,388
Total current assets	<u>1,574,126</u>
Noncurrent assets	
Capital assets	
Land	378,323
Capital assets being depreciated	7,243,379
Less: accumulated depreciation	<u>(3,678,818)</u>
Net capital assets	<u>3,942,884</u>
Total assets	<u>5,517,010</u>
Deferred outflows of resources	
Deferred outflows related to pensions and OPEB - CERS	<u>453,685</u>
Total assets and deferred outflows of resources	<u>5,970,695</u>
Liabilities	
Current liabilities	
Accounts payable	256,022
Accrued liabilities	40,961
Deferred revenue	7,777
Current portion of notes payable	108,038
Current portion of bond payable	22,083
Total current liabilities	<u>434,881</u>
Noncurrent liabilities	
Notes payable	1,086,000
Bond payable	519,583
Net pension and OPEB liability - CERS	<u>1,157,134</u>
Total noncurrent liabilities	<u>2,762,717</u>
Total liabilities	<u>3,197,598</u>
Deferred inflows of resources	
Deferred inflows related to pensions and OPEB - CERS	<u>311,953</u>
Total liabilities and deferred inflows of resources	<u>3,509,551</u>
Net position	
Net investment in capital assets	2,207,180
Restricted	68,631
Unrestricted	185,333
Total net position	<u>\$ 2,461,144</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, 2020

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	
Governmental activities						
Administration	\$ 348,356	\$ 22,763	\$ -	\$ -	\$ (325,593)	
Police	1,003,103	1,205	45,834	160,408	(795,656)	
Fire and EMS	429,075	-	-	-	(429,075)	
Waste collection	175,514	181,830	-	-	6,316	
Streets	346,884	-	74,440	218,290	(54,154)	
Garage	231,892	-	-	-	(231,892)	
Community Center	162,451	22,781	-	-	(139,670)	
Parks	184,908	-	-	125,866	(59,042)	
Sewers	-	-	-	-	-	
Interest on long-term debt	78,153	-	-	-	(78,153)	
Total governmental activities	\$ 2,960,336	\$ 228,579	\$ 120,274	\$ 504,564	(2,106,919)	
General revenues						
Taxes						
Property taxes						1,197,389
Franchise fees						66,987
Telecommunications taxes						47,789
Payroll license						571,094
Insurance premium taxes						422,348
Licenses and permits						32,280
Investment income						16,218
Fines, forfeitures, penalties						26,324
Miscellaneous						51,506
Total general revenues						2,431,935
Change in net position						325,016
Net position, beginning of year						2,136,128
Net position, end of year						\$ 2,461,144

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

CITY OF SOUTHGATE, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2020

	2020			(Memo Only) 2019 Totals
	General Fund	Other Governmental Funds	Total Governmental Funds	
Assets				
Cash and cash equivalents	\$ 936,283	\$ 76,273	\$ 1,012,556	\$ 953,170
Bond escrow account	-	-	-	70,946
Receivables				
Taxes	7,667	-	7,667	9,029
Intergovernmental	201,923	115,592	317,515	19,186
Other	236,388	-	236,388	218,787
Other assets	-	-	-	-
Due from other funds	73,573	-	73,573	71,799
Total assets	\$ 1,455,834	\$ 191,865	\$ 1,647,699	\$ 1,342,917
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 256,022	\$ -	\$ 256,022	\$ 102,285
Accrued liabilities	33,281	7,680	40,961	37,658
Deferred revenue	7,777	109,649	117,426	6,479
Due to other funds	-	73,573	73,573	71,799
Total liabilities	297,080	190,902	487,982	218,221
Fund balances				
Unspendable	-	-	-	-
Restricted	67,758	873	68,631	146,221
Committed	500	-	500	500
Assigned	-	90	90	2,484
Unassigned	1,090,496	-	1,090,496	975,491
Total fund balances	1,158,754	963	1,159,717	1,124,696
Total liabilities and fund balances	\$ 1,455,834	\$ 191,865	\$ 1,647,699	\$ 1,342,917

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

<p>CITY OF SOUTHGATE, KENTUCKY RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2020</p>

Total fund balance for governmental funds \$ 1,159,717

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

Capital assets of \$7,621,702 less accumulated depreciation of (\$3,678,818), used in governmental activities are not financial resources and, therefore, are not reported in the funds. 3,942,884

Other liabilities, consisting of revenue that are not available to be recognized in current-period revenues, are therefore deferred in the funds. 109,649

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	320,596
Deferred outflow of resources - OPEB - CERS	133,089
Deferred inflow of resources - pensions - CERS	(174,842)
Deferred inflow of resources - OPEB - CERS	(137,111)

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

Net pension liability - CERS	(927,560)
Net OPEB liability - CERS	(229,574)
Bond payable	(541,666)
Notes payable	(1,194,038)

Net position of governmental activities \$ 2,461,144

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, 2020

	2020			(Memo Only) 2019 Totals
	General Fund	Other Governmental Funds	Total Governmental Funds	
Revenues				
Property taxes	\$ 1,197,389	\$ -	\$ 1,197,389	\$ 1,154,958
Franchise fees	66,987	-	66,987	31,486
Telecommunications taxes	47,789	-	47,789	56,510
Payroll license	571,094	-	571,094	545,205
Insurance premium taxes	422,348	-	422,348	419,662
Licenses and permits	32,280	-	32,280	32,155
Intergovernmental	138,187	183,082	321,269	95,891
Fines, forfeitures, penalties	26,324	-	26,324	12,040
KLEFPF Income	33,513	-	33,513	33,410
Charges for services	205,798	22,781	228,579	251,527
Investment income	15,203	1,015	16,218	25,198
Miscellaneous	51,506	-	51,506	10,198
Total revenues	2,808,418	206,878	3,015,296	2,668,240
Expenditures				
Current Expenditures				
Administration	341,619	-	341,619	338,764
Police	865,505	-	865,505	865,733
Fire and EMS	408,962	-	408,962	368,514
Waste collection	175,514	-	175,514	175,514
Streets	154,169	22,298	176,467	213,987
Garage	223,210	-	223,210	153,664
Community Center	127,643	2,175	129,818	94,563
Parks	185,343	-	185,343	104,276
Sewers	-	-	-	-
Capital outlay	42,121	413,439	455,560	287,532
Debt service				
Principal	110,638	20,000	130,638	119,638
Interest	57,851	20,302	78,153	79,676
Bond issuance costs	-	-	-	25,000
Total expenditures	2,692,575	478,214	3,170,789	2,826,861
Excess (deficit) of revenues over expenditures	115,843	(271,336)	(155,493)	(158,621)
Other financing sources (uses)				
Loan/lease proceeds	30,106	-	30,106	617,780
CARES Act	160,408	-	160,408	-
Operating transfers in	23,000	219,000	242,000	44,500
Operating transfers out	(219,000)	(23,000)	(242,000)	(44,500)
Total other financing sources (uses)	(5,486)	196,000	190,514	617,780
Net change in fund balances	110,357	(75,336)	35,021	459,159
Fund balances, beginning of year	1,048,397	76,299	1,124,696	665,537
Fund balances, end of year	\$ 1,158,754	\$ 963	\$ 1,159,717	\$ 1,124,696

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

<p>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, 2020</p>

Net change in fund balances - total governmental funds \$ 35,021

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	\$ 455,560	
Depreciation expense	<u>(304,231)</u>	151,329

Governmental funds report revenue that are not available to be recognized in the current-period as deferred revenues in the funds. This represents the change in the deferred revenue in the current period. 109,649

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		(61,439)
Cost of benefits earned - OPEB - CERS		(10,076)

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

Loan proceeds		(30,106)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 130,638

Change in net position of governmental activities \$ 325,016

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

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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NOTE A – OVERVIEW OF ENTITY

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

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

Reporting Entity

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation Government-Wide Financial Statements

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

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

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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, 2020 are recorded at fair value based on quoted market prices.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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, 2020 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 position.

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, 2020
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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.

Pensions

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

Other Post-Employment Benefits (OPEB), Health Insurance

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

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.

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

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.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

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 non-spendable, 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.

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.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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 \$1,012,556 at June 30, 2020.

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, 2020, 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, 2020 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.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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	\$ 23,000
General	MRA	219,000
		<u>\$ 242,000</u>

NOTE H – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2020</u>
Governmental Activities				
Capital Assets not Depreciated				
Land	\$ 378,323	\$ -	\$ -	\$ 378,323
Total Capital Assets Not Being Depreciated	<u>378,323</u>	<u>-</u>	<u>-</u>	<u>378,323</u>
Depreciable Capital Assets				
Infrastructure	2,172,286	413,439	-	2,585,725
Buildings	3,208,709	-	-	3,208,709
Land improvements	39,867	-	-	39,867
Equipment	666,125	7,595	-	673,720
Vehicles	700,832	34,526	-	735,358
Total Depreciable Capital Assets	<u>6,787,819</u>	<u>455,560</u>	<u>-</u>	<u>7,243,379</u>
Total Capital Assets at Historical Cost	<u>7,166,142</u>	<u>455,560</u>	<u>-</u>	<u>7,621,702</u>
Less Accumulated Depreciation				
Infrastructure	(796,192)	(172,381)	-	(968,573)
Buildings	(1,434,938)	(64,174)	-	(1,499,112)
Land improvements	(14,040)	(1,595)	-	(15,635)
Equipment	(630,045)	(6,510)	-	(636,555)
Vehicles	(499,372)	(59,571)	-	(558,943)
Total Accumulated Depreciation	<u>(3,374,587)</u>	<u>(304,231)</u>	<u>-</u>	<u>(3,678,818)</u>
Depreciable Capital Assets, Net	<u>3,413,232</u>	<u>151,329</u>	<u>-</u>	<u>3,564,561</u>
Total Capital Assets, Net	<u>\$ 3,791,555</u>	<u>\$ 151,329</u>	<u>\$ -</u>	<u>\$ 3,942,884</u>

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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Current year depreciation was charged to governmental functions as follows:

<u>Governmental Activities</u>	<u>Amount</u>
Administration	\$ 11,814
Fire and EMS	20,113
Police	54,199
Streets	172,382
Garage	11,539
Park	992
Community Center	33,192
Total Depreciation	<u>\$ 304,231</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, 2020 is \$204,146. The remaining maturities on the Storm Sewer lease are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 25,489	\$ 6,252	\$ 31,741
2022	26,656	5,454	32,110
2023	27,879	4,604	32,483
2024	29,193	3,689	32,882
2025	30,492	2,795	33,287
Thereafter	64,437	589	65,026
Total	<u>\$ 204,146</u>	<u>\$ 23,383</u>	<u>\$ 227,529</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, 2020 is \$879,415.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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The remaining maturities on the Firehouse are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 44,944	\$ 42,315	\$ 87,259
2022	47,181	40,083	87,264
2023	49,533	37,735	87,268
2024	51,990	35,283	87,273
2025	54,582	32,735	87,317
Thereafter	631,185	154,573	785,758
Total	\$ 879,415	\$ 342,724	\$ 1,222,139

2016 WesBanco Bank

On November 16, 2016, the City entered into a loan agreement with WesBanco Bank 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 the vehicle acts as collateral for the loan. This loan was paid in full in November 2019.

2017 WesBanco Bank Loan

On March 1, 2017, the City entered into a loan agreement with WesBanco Bank 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 the vehicle acts as collateral for the loan. This loan was paid in full in March 2020.

2018 WesBanco Bank Loan

On August 24, 2017, the City entered into a loan agreement with WesBanco Bank 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, 2020 is \$13,024. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 5,904	\$ 325	\$ 6,229
2022	6,092	137	6,229
2023	1,028	10	1,038
Total	\$ 13,024	\$ 472	\$ 13,496

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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2018 WesBanco Bank Loan

On March 21, 2018, the City entered into a loan agreement with WesBanco Bank 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, 2020 is \$43,061. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 15,136	\$ 1,455	\$ 16,591
2022	15,754	837	16,591
2023	12,171	272	12,443
Total	<u>\$ 43,061</u>	<u>\$ 2,564</u>	<u>\$ 45,625</u>

2019 WesBanco Bank Loan

On January 3, 2019, the City entered into a loan agreement with WesBanco Bank in the amount of \$42,780 to purchase a police cruiser. The term of the loan is 60 months with monthly payments of \$975. The debt has an interest rate of 4.400% and matures in January of 2023. The vehicles act as collateral for the loan. The balance outstanding at June 30, 2020 is \$27,606. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 10,682	\$ 1,018	\$ 11,700
2022	11,162	538	11,700
2023	5,762	88	5,850
Total	<u>\$ 27,606</u>	<u>\$ 1,644</u>	<u>\$ 29,250</u>

2020 WesBanco Bank Loan

On December 6, 2019, the City entered into a loan agreement with WesBanco Bank in the amount of \$30,105 to purchase a police cruiser. The term of the loan is 60 months with monthly payments of \$579. The debt has an interest rate of 4.390% and matures in December of 2024. The vehicle acts as collateral for the loan. The balance outstanding at June 30, 2020 is \$26,786. The remaining maturities on the loan are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2021	\$ 5,885	\$ 1,063	\$ 6,948
2022	6,149	799	6,948
2023	6,424	524	6,948
2024	6,712	236	6,948
2025	1,616	118	1,734
Total	<u>\$ 26,786</u>	<u>\$ 2,740</u>	<u>\$ 29,526</u>

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

Kentucky Bond Corporation – Lease Agreement

On August 2, 2018, the City entered into a lease agreement with the Kentucky Bond Corporation (KBC) in the amount of \$575,000 to finance various road improvement projects. The lease agreement with the Kentucky Bond Corporation specifies monthly principal, interest and expense requirement payments in the amount in effect on the first day of each fiscal year as stated in the agreement.

The debt service is as follows:

Ending June 30,	Interest Rate	Principal	Interest	Total Debt Service
2021	4.400%	\$ 22,083	\$ 19,602	\$ 41,685
2022	4.400%	25,000	18,829	43,829
2023	4.400%	25,000	17,954	42,954
2024	4.400%	25,000	17,079	42,079
2025	4.400%	25,000	16,204	41,204
2026-2030	4.400%	142,083	67,152	209,235
2031-2035	4.400%	174,166	39,921	214,087
2036-2038	4.400%	103,335	8,049	111,384
Total		<u>\$ 541,667</u>	<u>\$ 204,790</u>	<u>\$ 746,457</u>

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, 2020:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020	Amounts Due Within One Year
Firehouse	\$ 922,223	\$ -	\$ (42,809)	\$ 879,414	\$ 44,944
Storm Sewer	228,426	-	(24,279)	204,146	25,489
WesBanco Bank loan - 2016	3,874	-	(3,874)	-	-
WesBanco Bank loan - 2017	5,895	-	(5,895)	-	-
WesBanco Bank loan - 2018	18,741	-	(5,717)	13,024	5,904
WesBanco Bank loan - 2018	57,611	-	(14,550)	43,061	15,134
WesBanco Bank loan - 2019	37,801	-	(10,195)	27,606	10,682
WesBanco Bank loan - 2020	-	30,106	(3,319)	26,786	5,885
WesBanco Bank TAN	-	-	-	-	-
Series 2018B Revenue bond	561,667	-	(20,000)	541,667	22,083
Total Debt	<u>\$ 1,836,238</u>	<u>\$ 30,106</u>	<u>\$ (130,638)</u>	<u>\$ 1,735,704</u>	<u>\$ 130,121</u>

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

NOTE J – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

Plan description - Employees are covered by CERS (County Employees Retirement System), 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.

Membership in CERS consisted of the following at June 30, 2019:

	Non-hazardous	Hazardous	Total
Active Plan Members	84,632	9,402	94,034
Inactive Plan Members	85,300	2,702	88,002
Retired Members	58,933	8,000	66,933
	<u>228,865</u>	<u>20,104</u>	<u>248,969</u>
	Number of participating employers		<u>1,140</u>

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

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

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 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 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 and 55 years old, or any age with 20 years of service.
	Reduced retirement	15 years service and 50 years old
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 or any age with 25 years of service.
	Reduced retirement	15 years service and 50 years old
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

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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 pension plan contributions by the employee are based on the tier:

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

Contributions

For non-hazardous duty employees, the City contributed 24.06% of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2020.

For hazardous duty employees, the City contributed 39.58% of which 30.06% was for the pension fund and 9.52% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2020.

The City made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of \$89,208, of which \$71,560 was for the pension fund and \$17,649 was for the health insurance fund.

The City made all required contributions for the hazardous Plan obligation for the fiscal year in the amount of \$21,506, of which \$16,333 was for the pension fund and \$5,173 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, 2020, the City reported a liability of \$927,560 as its proportionate share of the net pension liability (\$655,833 for the non-hazardous plan and \$271,727 for the hazardous duty plan) The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2019, the City's non-hazardous employer allocation proportion was 0.00933% of the total CERS non-hazardous duty employees and the hazardous employer allocation proportion was 0.009837% of the total CERS hazardous duty employees. For the year ended June 30, 2020, the City recognized pension expense of \$61,439 in addition to its \$87,893 pension contribution.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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At June 30, 2020, 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 of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 16,745	\$ (2,771)	\$ 11,545	\$ -	\$ 28,290	\$ (2,771)
Net difference between projected actual earnings on plan investments	-	(10,573)	-	(3,846)	-	(14,419)
Changes of assumptions	66,378	-	26,376	-	92,754	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(156,419)	111,659	(1,233)	111,659	(157,652)
Contributions subsequent to the measurement date	71,560	-	16,333	-	87,893	-
	<u>\$ 154,683</u>	<u>\$ (169,763)</u>	<u>\$ 165,913</u>	<u>\$ (5,079)</u>	<u>\$ 320,596</u>	<u>\$ (174,842)</u>

The City's contributions subsequent to the measurement date of \$87,893 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ending June 30,	Net Deferral
2020	\$ 49,121
2021	5,784
2022	1,961
2023	995
2024	-
Thereafter	-
	<u>\$ 57,861</u>

Actuarial Assumptions

The total pension liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.30-3.55%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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The mortality table used for active members is Pub-2010 General Mortality table for the Non-Hazardous System and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

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 Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

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.

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-

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 820,259	\$ 655,831	\$ 518,783
Hazardous	339,720	271,727	215,983
Total	\$ 1,159,979	\$ 927,558	\$ 734,766

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, 2018, the contribution was \$13.38 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, 2018, the contribution was \$13.38 per month.

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

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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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, 2018, the contribution was \$20.07 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	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$20.07 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 was 4.76% of covered-employee payroll for non-hazardous duty employees and 9.52% 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 \$17,649 for non-hazardous duty employees and \$5,173 for hazardous duty employees for the year ended June 30, 2020.

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the City reported a liability of \$229,574 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of 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, 2019, the City's proportion of the non-hazardous plan was 0.00932% and the hazardous plan was 0.009835%.

For the year ended June 30, 2020, the City recognized an OPEB expense of \$10,076. In addition, 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 of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ (47,313)	\$ -	\$ (13,537)	\$ -	\$ (60,850)
Net difference between projected actual earnings on plan investments	-	(6,965)	-	(4,184)	-	(11,149)
Changes of assumptions	46,401	(310)	21,989	(138)	68,390	(448)
Changes in proportion and differences between contributions and proportionate share of contributions	-	(64,664)	41,878	-	41,877	(64,664)
Contributions subsequent to the measurement date	17,649	-	5,173	-	22,822	-
	<u>\$ 64,050</u>	<u>\$ (119,252)</u>	<u>\$ 69,040</u>	<u>\$ (17,859)</u>	<u>\$ 133,089</u>	<u>\$ (137,111)</u>

The City's contributions subsequent to the measurement date, \$22,822 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2020	\$ 3,664
2021	(208)
2022	(2,208)
2023	(11,008)
2024	(13,859)
Thereafter	(3,224)
	<u>\$ (26,843)</u>

CITY OF SOUTHGATE, KENTUCKY Notes to Financial Statements June 30, 2020
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Actuarial Assumptions

The total OPEB liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05-3.30%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation,
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality:	
Pre-retirement	PUB-2010 General Mortality table for Non-Hazardous System, and the PUB-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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.

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

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	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

In 2019 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.85% to 5.68%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.68% for the non-hazardous plan and 5.69% 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 5.68% for the non-hazardous plan, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount Rate, Non-Hazardous	4.68%	5.68%	6.68%
Net OPEB liability, Non-Haz	\$ 210,059	\$ 156,809	\$ 112,934
Discount Rate, Hazardous	4.69%	5.69%	6.69%
Net OPEB liability, Haz	\$ 101,522	\$ 72,765	\$ 49,423
Total	\$ 311,581	\$ 229,574	\$ 162,357

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:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 116,619	\$ 156,809	\$ 205,543
Net OPEB liability, hazardous	50,631	72,765	99,768
Total	\$ 167,250	\$ 229,574	\$ 305,311

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 \$366,000 for fire protection and \$15,000 for life squad service during the fiscal year ended June 30, 2020.

NOTE L – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations – FY 2020*

Statement No. 88 – *Certain Disclosures Related to Debt – FY 2020*

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance – FY 2020*

NOTE M – FUTURE ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities – FY 2021*

Statement No. 87 – *Leases – FY 2022*

CITY OF SOUTHGATE, KENTUCKY
Notes to Financial Statements
June 30, 2020

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

Statement No. 90 – *Majority Equity Interests* – FY 2021

Statement No. 91 – *Conduit Debt Obligations* – FY 2023

Statement No. 92 – *Omnibus 2020* – FY 2022

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

NOTE N - COVID-19 GLOBAL PANDEMIC

On January 30, 2020, the World Health Organization announced a global health emergency, later classified as a global pandemic, as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States of America. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the City's financial condition, liquidity, and future results of operations. The City's Management and Council are actively monitoring the impact of the global pandemic on its financial condition, liquidity, operations, suppliers, and industry.

The primary effects on the City from the COVID-19 Global Pandemic has been a reduction in payroll and occupational license tax revenue received and an increase in unbudgeted expenses for personal protective equipment. City management is unsure of a timeline for when, or if, these revenues and expenses will return to pre-pandemic levels. The 2020-21 fiscal-year budget has been passed to incorporate the effects of the pandemic on the revenues and expenses.

NOTE O - CARES ACT FUNDING

In response to the COVID-19 Global Pandemic, the City has qualified and been approved for \$373,805 in Federal CARES Act funding passed through the Commonwealth of Kentucky's Department for Local Government. This funding has been designated to reimburse the City for payroll expenses for public safety employees during the pandemic. The City has recognized, \$160,408 of these funds as other financial resources and as an accounts receivable at June 30, 2020. The remaining \$213,397 was recognized in the following fiscal year.

NOTE P – SUBSEQUENT EVENTS

Management has considered subsequent events through January 18, 2021 which represents the date that these financial statements were available to be issued. The City has no events subsequent to June 30, 2020 through January 18, 2021 to disclose.

CITY OF SOUTHGATE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
Budgetary fund balance, July 1	\$ 824,025	\$ 224,372	\$ 1,048,397	\$ 1,048,397	-
Resources (inflows)					
Estimated revenues	3,077,186	(426,136)	2,651,050	2,998,931	347,881
Transfer of funds	(54,574)	(17,426)	(72,000)	(196,000)	(124,000)
Amounts available for appropriation	<u>3,846,637</u>	<u>(219,190)</u>	<u>3,627,447</u>	<u>3,851,328</u>	<u>223,881</u>
Charges to appropriations (outflows)					
Administration	341,568	8,170	349,738	341,869	7,869
Police	954,890	(11,168)	943,722	943,397	325
Streets	226,158	(42,916)	183,242	168,096	15,146
Sewers	31,413	-	31,413	31,285	128
Waste collection	175,325	189	175,514	175,514	-
Fire	513,580	(17,155)	496,425	496,217	208
Community center	115,070	15,983	131,053	127,643	3,410
Garage	161,338	79,848	241,186	223,210	17,976
Parks	664,290	(489,168)	175,122	185,343	(10,221)
Total charges to appropriations	<u>3,183,632</u>	<u>(456,217)</u>	<u>2,727,415</u>	<u>2,692,574</u>	<u>34,841</u>
Transfers in (out)	-	-	-	-	-
Budgetary fund balance, June 30	<u>\$ 663,005</u>	<u>\$ 237,027</u>	<u>\$ 900,032</u>	<u>\$ 1,158,754</u>	<u>\$ 258,722</u>

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

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

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.009330%	0.012830%	0.013820%	0.014211%	0.013878%	0.013427%				
Proportionate share of the net pension liability (asset)	\$ 655,831	\$ 781,447	\$ 808,869	\$ 699,711	\$ 596,683	\$ 435,622				
Covered payroll in year of measurement	363,900	442,451	534,080	224,408	222,875	209,804				
Share of the net pension liability (asset) as a percentage of its covered payroll	180.22%	176.62%	151.45%	311.80%	267.72%	207.63%				
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 71,560	\$ 59,025	\$ 64,067	\$ 66,408	\$ 27,871	\$ 28,416	\$ 28,827			
Actual contribution	71,560	59,025	64,067	66,408	27,871	28,416	28,827			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll	\$ 370,775	\$ 363,900	\$ 442,451	\$ 534,080	\$ 224,408	\$ 222,875	\$ 209,804			
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	12.43%	12.42%	12.75%	13.74%			

Notes to Required Supplementary Information
For the Year Ended June 30, 2020
Changes of Assumptions

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.009837%	0.003646%	0.000204%	0.000833%	0.003456%	0.010045%				
Proportionate share of the net pension liability (asset)	\$ 271,727	\$ 88,177	\$ 4,564	\$ 14,294	\$ 53,057	\$ 120,724				
Covered payroll in year of measurement	55,873	2,128	1,119	219,408	221,967	215,501				
Share of the net pension liability (asset) as a percentage of its covered payroll	486.33%	4143.66%	407.86%	6.51%	23.90%	56.02%				
Plan fiduciary net position as a percentage of total pension liability	46.63%	49.26%	49.80%	53.95%	57.52%	63.46%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 16,333	\$ 13,890	\$ 472	\$ 243	\$ 44,452	\$ 50,941	\$ 46,915			
Actual contribution	16,333	13,890	472	243	44,452	50,941	46,915			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll	\$ 54,335	\$ 55,873	\$ 2,128	\$ 1,119	\$ 219,408	\$ 221,967	\$ 215,501			
Contributions as a percentage of covered payroll	30.06%	24.86%	22.18%	21.72%	20.26%	22.95%	21.77%			

Notes to Required Supplementary Information
For the Year Ended June 30, 2020
Changes of Assumptions

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.00932%	0.01283%	0.01382%							
Proportionate share of the net OPEB liability (asset)	\$ 156,809	\$ 227,812	\$ 277,809							
Covered payroll in year of measurement	363,900	442,451	534,080							
Share of the net OPEB liability (asset) as a percentage of its covered payroll	43.09%	51.49%	52.02%							
Plan fiduciary net position as a percentage of total OPEB liability	60.44%	57.62%	52.40%							

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 17,649	\$ 19,141	\$ 20,795	\$ 15,915						
Actual contribution	17,649	19,141	20,795	15,915						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll	370,775	363,900	442,451	534,080						
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%	4.73%						

Notes to Required Supplementary Information

The net OPEB liability as of June 30, 2020, is based on the June 30, 2019, 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)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.009835%	0.003646%	0.000204%							
Proportionate share of the net OPEB liability (asset)	\$ 72,765	\$ 25,995	\$ 1,686							
Covered payroll in year of measurement	55,873	2,128	1,119							
Share of the net OPEB liability (asset) as a percentage of its covered payroll	130.23%	1221.57%	150.67%							
Plan fiduciary net position as a percentage of total OPEB liability	64.44%	64.24%	59.00%							

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 5,173	\$ 5,850	\$ 199	\$ 105						
Actual contribution	5,173	5,850	199	105						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll	54,335	55,873	2,128	1,119						
Contributions as a percentage of covered payroll	9.52%	10.47%	9.35%	9.38%						

Notes to Required Supplementary Information

The net OPEB liability as of June 30, 2020, is based on the June 30, 2019, 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 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS June 30, 2020

	<u>Municipal Road Aid Fund</u>	<u>Community Center Fund</u>	<u>Total Non-Major Funds</u>
Assets			
Cash and cash equivalents	\$ 68,503	\$ 7,770	\$ 76,273
Accounts receivable			
Intergovernmental	115,592	-	115,592
Total assets	<u>\$ 184,095</u>	<u>\$ 7,770</u>	<u>\$ 191,865</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Rental deposits	-	7,680	7,680
Deferred revenue	109,649	-	109,649
Due to other funds	73,573	-	73,573
Total liabilities	<u>183,222</u>	<u>7,680</u>	<u>190,902</u>
Fund balances			
Restricted	873	-	873
Assigned	-	90	90
Unassigned	-	-	-
Total fund balances	<u>873</u>	<u>90</u>	<u>963</u>
Total liabilities and fund balances	<u>\$ 184,095</u>	<u>\$ 7,770</u>	<u>\$ 191,865</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, 2020

	<u>Municipal Road Aid Fund</u>	<u>Community Center Fund</u>	<u>Total Non-Major Funds</u>
Revenues			
Intergovernmental revenue	\$ 183,082	\$ -	\$ 183,082
Charges for services	-	22,781	22,781
Interest	1,015	-	1,015
Total revenues	<u>184,097</u>	<u>22,781</u>	<u>206,878</u>
Expenditures			
Streets	435,737	-	435,737
Debt service	40,302	-	40,302
Community Center	-	2,175	2,175
Total expenditures	<u>476,039</u>	<u>2,175</u>	<u>478,214</u>
Excess (deficit) of revenues over expenditures	(291,942)	20,606	(271,336)
Other financing sources (uses)			
Operating transfers in (out)	<u>219,000</u>	<u>(23,000)</u>	<u>196,000</u>
Deficit of revenues and other financing sources over expenditures and other financing uses	(72,942)	(2,394)	(75,336)
Fund balances, beginning of year	73,815	2,484	76,299
Fund balances, end of year	<u>\$ 873</u>	<u>\$ 90</u>	<u>\$ 963</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, 2020

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
Budgetary fund balance, July 1	\$ 12,569	\$ 61,246	\$ 73,815	\$ 73,815	\$ -
Resources (inflows):					
Intergovernmental revenues	291,600	(107,959)	183,641	183,082	(559)
Interest	1,000	-	1,000	1,015	15
Proceeds of long term debt	510,170	(375,170)	135,000	-	(135,000)
Amounts available for appropriation	<u>815,339</u>	<u>(421,883)</u>	<u>393,456</u>	<u>257,912</u>	<u>(135,544)</u>
Charges to appropriations (outflows):					
Debt service expenditures	40,302	-	40,302	40,302	-
Streets	857,680	(416,404)	441,276	435,737	5,539
Total charges to appropriations	<u>897,982</u>	<u>(416,404)</u>	<u>481,578</u>	<u>476,039</u>	<u>5,539</u>
Transfers to (from) fund	<u>100,000</u>	<u>(5,000)</u>	<u>95,000</u>	<u>219,000</u>	<u>124,000</u>
Budgetary fund balance, June 30	<u>\$ 17,357</u>	<u>\$ (10,479)</u>	<u>\$ 6,878</u>	<u>\$ 873</u>	<u>\$ (6,005)</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, 2020

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
Budgetary fund balance, July 1	\$ 682	\$ 1,802	\$ 2,484	\$ 2,484	\$ -
Resources (inflows):					
Rental and sales income	45,476	(23,082)	22,394	22,781	387
Transfer to (from) fund	(45,426)	22,426	(23,000)	(23,000)	-
Amounts available for appropriation	<u>732</u>	<u>1,146</u>	<u>1,878</u>	<u>2,265</u>	<u>387</u>
Charges to appropriations (outflows):					
Community Center	<u>50</u>	<u>1,000</u>	<u>1,050</u>	<u>2,175</u>	<u>(1,125)</u>
Total charges to appropriations	<u>50</u>	<u>1,000</u>	<u>1,050</u>	<u>2,175</u>	<u>(1,125)</u>
Budgetary fund balance, June 30	<u>\$ 682</u>	<u>\$ 146</u>	<u>\$ 828</u>	<u>\$ 90</u>	<u>\$ (738)</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, 2020 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 18, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statement. 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 18, 2021