

**CITY OF CLARKSON,  
KENTUCKY**

FINANCIAL STATEMENTS, SUPPLEMENTARY  
INFORMATION AND INDEPENDENT  
AUDITOR'S REPORT

JUNE 30, 2018

**CITY OF CLARKSON, KENTUCKY**

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**JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Commissioners  
City of Clarkson  
Clarkson, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clarkson, Kentucky (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clarkson, Kentucky, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the City adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017*, and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, pension schedules, and OPEB schedules on pages 40 - 46 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.

Management has omitted the Management's Discussion and Analysis (MDA) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2019 on our consideration of the City of Clarkson, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clarkson, Kentucky's internal control over financial reporting and compliance.

*Stiles, Carter & Associates, CPAs, P.C.*  
Bardstown, Kentucky  
July 23, 2019

# CITY OF CLARKSON, KENTUCKY

## STATEMENT OF NET POSITION JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 180,422	\$ 56,142	\$ 236,564
Receivables:			
Taxes, licenses, and fees	79,810	-	79,810
Other accounts receivable, net	11,960	16,085	28,045
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
Total current assets	<u>273,292</u>	<u>72,227</u>	<u>345,519</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	39,596	39,596
Non-depreciable capital assets	160,965	94,108	255,073
Depreciable capital assets, net	669,986	628,507	1,298,493
Total noncurrent assets	<u>830,951</u>	<u>762,211</u>	<u>1,593,162</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,104,243</u>	<u>\$ 834,438</u>	<u>\$ 1,938,681</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
OPEB related items	\$ 38,580	\$ 6,782	\$ 45,362
Pension related items	126,204	26,753	152,957
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 164,784</u>	<u>\$ 33,535</u>	<u>\$ 198,319</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 18,451	\$ 2,058	\$ 20,509
Accrued liabilities	10,575	-	10,575
Customer deposits	-	25,393	25,393
Accrued interest payable	-	11,530	11,530
Compensated absences, current	717	-	717
Loan payable, current	17,778	-	17,778
Bonds payable, current	-	28,000	28,000
Total current liabilities	<u>47,521</u>	<u>66,981</u>	<u>114,502</u>
Noncurrent liabilities:			
Compensated absences, long-term	2,870	-	2,870
Loan payable, long-term	257,791	-	257,791
Bonds payable, long-term	-	448,000	448,000
Net OPEB liability - CERS	110,250	24,977	135,227
Net pension liability - CERS	309,956	72,722	382,678
Total noncurrent liabilities	<u>680,867</u>	<u>545,699</u>	<u>1,226,566</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 728,388</u>	<u>\$ 612,680</u>	<u>\$ 1,341,068</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
OPEB related items	\$ 6,468	\$ 1,307	\$ 7,775
Pension related items	32,496	7,358	39,854
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 38,964</u>	<u>\$ 8,665</u>	<u>\$ 47,629</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 555,382	\$ 246,615	\$ 801,997
Restricted for:			
Debt service	-	26,853	26,853
Capital outlay	-	10,537	10,537
Municipal Aid Road Fund	11,814	-	11,814
Unrestricted	<u>(65,521)</u>	<u>(37,377)</u>	<u>(102,898)</u>
<b>TOTAL NET POSITION</b>	<u>\$ 501,675</u>	<u>\$ 246,628</u>	<u>\$ 748,303</u>

See accompanying notes to the financial statements.

**CITY OF CLARKSON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Programs/Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 310,554	\$ 7,400	\$ 4,224	\$ -	\$ (298,930)	\$ -	\$ (298,930)
Public safety - police	96,922	275	4,258	-	(92,389)	-	(92,389)
Public safety - fire	87,781	75	50,470	-	(37,236)	-	(37,236)
Parks and recreation	86,312	41,794	-	-	(44,518)	-	(44,518)
Sanitation	89,516	148,001	-	-	58,485	-	58,485
Streets	31,656	-	31,076	-	(580)	-	(580)
Interest on long-term debt	12,307	-	-	-	(12,307)	-	(12,307)
Total governmental activities	715,048	197,545	90,028	-	(427,475)	-	(427,475)
<b>Business-type activities:</b>							
Sewer utilities	213,287	198,905	-	-	-	(14,382)	(14,382)
Total primary government	<u>\$ 928,335</u>	<u>\$ 396,450</u>	<u>\$ 90,028</u>	<u>\$ -</u>	<u>(427,475)</u>	<u>(14,382)</u>	<u>(441,857)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes					62,632	-	62,632
Motor vehicle taxes					4,072	-	4,072
Utility taxes					41,632	-	41,632
Occupational taxes					160,888	-	160,888
Insurance premium tax					76,176	-	76,176
Administrative charges from Sewer Fund					48,000	-	48,000
Licenses and permits					3,253	24	3,277
Investment income					110	-	110
Miscellaneous					11,548	-	11,548
Insurance proceeds and gain on disposals					11,725	-	11,725
Transfers					(39,346)	39,346	-
Total general revenues					<u>380,690</u>	<u>39,370</u>	<u>420,060</u>
Change in Net Position					(46,785)	24,988	(21,797)
Net Position, Beginning of Year (as previously reported)					<u>608,607</u>	<u>249,579</u>	<u>858,186</u>
Prior Period Adjustments					<u>(60,147)</u>	<u>(27,939)</u>	<u>(88,086)</u>
Net Position, Beginning of Year (Restated)					<u>548,460</u>	<u>221,640</u>	<u>770,100</u>
Net Position, End of Year					<u>\$ 501,675</u>	<u>\$ 246,628</u>	<u>\$ 748,303</u>

See accompanying notes to the financial statements.



**CITY OF CLARKSON, KENTUCKY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 169,928	\$ 10,494	\$ 180,422
Taxes receivable	78,131	-	78,131
Intergovernmental receivables	-	1,679	1,679
Other accounts receivable, net	11,960	-	11,960
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
	<u>261,119</u>	<u>12,173</u>	<u>273,292</u>
Total current assets	<u>\$ 261,119</u>	<u>\$ 12,173</u>	<u>\$ 273,292</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 18,092	\$ 359	\$ 18,451
Accrued liabilities	10,575	-	10,575
Total liabilities	<u>28,667</u>	<u>359</u>	<u>29,026</u>
<b>FUND BALANCES</b>			
Nonspendable	1,100	-	1,100
Restricted	-	11,814	11,814
Assigned	11,724	-	11,724
Unassigned	219,628	-	219,628
Total fund balances	<u>232,452</u>	<u>11,814</u>	<u>244,266</u>
Total liabilities and fund balances	<u>\$ 261,119</u>	<u>\$ 12,173</u>	<u>\$ 273,292</u>

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2018

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Total fund balances of governmental funds	\$	244,266	
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the respective governmental funds:			
Cost of capital assets	\$	2,748,761	
Accumulated depreciation		<u>(1,917,810)</u>	830,951
Deferred outflows of resources and deferred inflows of resources related to the City's proportionate share of CERS:			
Deferred outflows of resources - OPEB related		38,580	
Deferred inflows of resources - OPEB related		(6,468)	
Deferred outflows of resources - pension related		126,204	
Deferred inflows of resources - pension related		<u>(32,496)</u>	125,820
Long-term liabilities, including loan payable, are not due and payable in the current period; therefore, they are not reported in governmental funds:			
Compensated absences		(3,587)	
Net OPEB liability		(110,250)	
Net pension liability		(309,956)	
Loan payable		<u>(275,569)</u>	<u>(699,362)</u>
Net position of governmental activities	\$		<u><u>501,675</u></u>

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See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 62,632	\$ -	\$ 62,632
Utility taxes	41,632	-	41,632
Occupational taxes	160,888	-	160,888
Insurance premium tax	76,176	-	76,176
Motor vehicle tax	4,072	-	4,072
Licenses and permits	3,253	-	3,253
Intergovernmental	-	17,692	17,692
Grants and contributions	72,336	-	72,336
Charges for services	197,545	-	197,545
Administrative fees charged to sewer fund	48,000	-	48,000
Investment income	105	5	110
Other revenues	11,507	-	11,507
Total revenues	<u>678,146</u>	<u>17,697</u>	<u>695,843</u>
<b>EXPENDITURES</b>			
Current:			
General government	229,617	-	229,617
Public safety - police	67,775	-	67,775
Public safety - fire	17,346	-	17,346
Sanitation	89,516	-	89,516
Parks and recreation	85,882	-	85,882
Streets	12,517	24,601	37,118
Capital outlay	139,081	-	139,081
Debt service - principal	-	17,975	17,975
Debt service - interest	-	12,307	12,307
Total expenditures	<u>641,734</u>	<u>54,883</u>	<u>696,617</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,412</u>	<u>(37,186)</u>	<u>(774)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	12,738	-	12,738
Proceeds from issuance of debt	50,072	-	50,072
Transfers in	-	30,282	30,282
Transfers out	<u>(69,628)</u>	<u>-</u>	<u>(69,628)</u>
Net other financing sources (uses)	<u>(6,818)</u>	<u>30,282</u>	<u>23,464</u>
Net change in fund balances	29,594	(6,904)	22,690
Fund balances - beginning of year	<u>202,858</u>	<u>18,718</u>	<u>221,576</u>
Fund balances - end of year	<u>\$ 232,452</u>	<u>\$ 11,814</u>	<u>\$ 244,266</u>

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

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Net change in fund balances - governmental funds	\$	22,690
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays are reported as an expenditure in the fund financial statements but are capitalized in the government-wide financial statements	\$ 139,081	
Depreciation is reported in the government-wide financial statements	<u>(93,797)</u>	45,284
In the Statement of Activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.		
		(1,013)
Proceeds from the issuance of long-term debt provide current financial resources and are reported in the fund financial statements but they are present as liabilities in the statement of net position		
		(50,072)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount		
Principal payments on long-term debt		17,975
Some items reported in the Statement of Activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
These activities include:		
Pension and OPEB expense related to changes in the net pension and OPEB liability and the net changes in deferred inflows and deferred outflows related to CERS pensions and OPEB plans	(81,219)	
Changes in compensated absences	<u>(430)</u>	<u>(81,649)</u>
Change in net position of governmental activities	\$	<u>(46,785)</u>

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See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2018

	<u>Sewer Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 56,142
Accounts receivable, net	16,085
Total current assets	<u>72,227</u>
Noncurrent assets:	
Restricted cash and cash equivalents	39,596
Non-depreciable capital assets	94,108
Depreciable capital assets, net	628,507
Total noncurrent assets	<u>762,211</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 834,438</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to OPEB	\$ 6,782
Deferred outflows related to pensions	26,753
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 33,535</u></b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 2,058
Customer deposits	25,393
Accrued interest payable	11,530
Bonds payable, current	28,000
Total current liabilities	<u>66,981</u>
Noncurrent liabilities:	
Bonds payable, long-term	448,000
Net OPEB liability	24,977
Net pension liability	72,722
Total noncurrent liabilities	<u>545,699</u>
<b>TOTAL LIABILITIES</b>	<b><u>\$ 612,680</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to OPEB	\$ 1,307
Deferred inflows related to pensions	7,358
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>\$ 8,665</u></b>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 246,615
Restricted for:	
Debt service	26,853
Capital outlay	10,537
Unrestricted	<u>(37,377)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 246,628</u></b>

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2018**

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	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services, net of refunds of \$8,610	\$ 198,905
TOTAL OPERATING REVENUES	<u>198,905</u>
OPERATING EXPENSES:	
Administration fees paid to general fund	48,000
Payroll and related benefits and taxes	15,676
Repairs and maintenance	14,180
Insurance	6,405
Utilities	17,109
General administrative, supplies, and services	26,976
Depreciation expense	61,229
TOTAL OPERATING EXPENSES	<u>189,575</u>
OPERATING INCOME	<u>9,330</u>
NONOPERATING REVENUES (EXPENSES):	
Interest expense	<u>(23,712)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(23,688)</u>
LOSS BEFORE TRANSFERS	(14,358)
Transfers in	<u>39,346</u>
CHANGE IN NET POSITION	<u>24,988</u>
NET POSITION, beginning of year	249,579
Prior Period Restatement	<u>(27,939)</u>
NET POSITION, beginning of year, restated	<u>221,640</u>
NET POSITION, end of year	<u>\$ 246,628</u>

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See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2018

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 199,465
Cash payments to suppliers for goods and services	(112,258)
Cash payments to employees for services	(39,346)
Net cash provided by operating activities	<u>47,861</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Net transfer in from general fund	<u>39,346</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(13,744)
Principal paid on long-term debt	(26,500)
Interest paid on long-term debt	(24,363)
Net cash used by capital and related financing activities	<u>(63,122)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,109
CASH AND CASH EQUIVALENTS, beginning of year	<u>71,629</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 95,738</u>
Classified as:	
Current assets - cash and cash equivalents	56,142
Restricted assets - cash and cash equivalents	<u>39,596</u>
Total	<u>\$ 95,738</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 9,330
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	61,229
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	560
(Increase) decrease in deferred outflows - pension	(12,041)
Increase (decrease) in accounts payable	412
Increase (decrease) in deferred inflows - pension	6,447
Increase (decrease) in net OPEB liability	(5,121)
Increase (decrease) in net pension liability	(12,955)
Net cash provided by operating activities	<u>\$ 47,861</u>
SCHEDULE OF NON-CASH TRANSACTIONS:	
CERS pensions and OPEB	<u>\$ 23,670</u>

See accompanying notes to financial statements.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units, hereinafter referred to as GAAP (generally accepted accounting principles). The accepted standard-setting body for establishing governmental accounting and financial reporting principles is GASB (the Governmental Accounting Standards Board). Determination of the financial reporting entity of the City is founded upon the objective of accountability. Therefore, these financial statements include the City government (the primary government).

#### A. Reporting Entity

The City of Clarkson, Kentucky (the "City") was chartered in 1908 and incorporated under the provisions of the State of Kentucky. The City operates under the Mayor-Commission Form of government. As authorized by its charter, the City provides the following services: public safety (police and fire), streets, sewer, sanitation, recreation, public improvements, and general administrative services.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Clarkson. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Clarkson.

The citizens of Clarkson elect a mayor-at-large and four (4) City Commissioners.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the City is financially accountable. The City is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the City or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the City or the nature and significance of the relationship between the City and the organization is such that exclusion would cause the City's financial statements to be incomplete. Applying this definition, City management has determined there are no component units reportable within the accompanying financial statements.

#### B. Basis of Presentation

The City's *government-wide financial statements* provide both short-term and long-term information about the City's overall financial status. *Fund financial statements* focus on the individual activities of City government, reporting the City's operations in more detail than the government-wide financial statements.

#### C. Basis of Accounting and Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Governmental funds use the modified accrual basis of accounting and proprietary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.



# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

### **Government-wide Financial Statements**

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position.

The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

### **Governmental Fund Financial Statements**

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. 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.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

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# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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General Fund: The General Fund is the City of Clarkson, Kentucky's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following non-major funds:

Municipal Aid Fund: This fund is used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures to be used to account for and report resources restricted or committed to improvement of the City's roads and sidewalks. The primary sources of revenue are intergovernmental grants.

Debt Service Fund: This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest payments on long-term debt.

### **Proprietary Fund Financial Statements**

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the activities related to the provision of sewer services to the City of Clarkson, Kentucky's businesses, residents, schools, and churches. It operates the sewer treatment plant, sewer collection systems, and pump stations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **D. Cash and Cash Equivalents**

The City considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### **E. Restricted Cash and Cash Equivalents**

Restricted assets include those monies reserved for revenue bond debt and loans with reserve covenants.

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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**F. Taxes Receivable, Tax Calendar, and Accounts Receivable**

Recorded property taxes receivable that are collected within 60 days after year-end are considered measurable and available and, therefore, are recognized as revenue. An allowance for doubtful accounts is not deemed necessary by management, as uncollectible taxes become a lien on the property and amounts are expected to be insignificant.

Property tax (real property) rolls are prepared by the Grayson County Property Tax Assessors office on property assessed as of the preceding January 1. The assessments are determined in accordance with Kentucky Revised Statutes. The due date collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Date per KRS 134.015
• Due date for payment	Upon Receipt
• 2% discount applies	To November 30
• Face value payment period	To December 31
• Past due date, 10% penalty	January 1
• Interest charges	1% per month effective January 1

Vehicle taxes are collected by the County Clerk of Grayson County. Vehicle taxes are due in the birth month of the licensee.

Accounts receivable are stated at face amount, net of an allowance for doubtful accounts (see Note 3). The amount recognized as an uncollectible balance is based on an aging schedule of accounts and historical collection patterns.

Receivables of the proprietary funds are recognized as revenue when earned, including services provided but not billed.

**G. Prepaid Expenses**

Payments made that will benefit periods beyond June 30, 2018 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventories**

Inventories are defined as assets which may be held for internal consumption or for resale. All City inventories are maintained on a consumption basis of accounting where items are purchased for inventory and charged to the budgetary accounts as the items are consumed. Inventories are carried at cost on the first in, first out-FIFO basis. No inventory is maintained in the Sewer Fund.

**I. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$1,000. The City uses a threshold of \$5,000 for infrastructure (streets, roads, bridges, sidewalks). Improvements to buildings and land are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized. All reported capital assets are depreciated. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Description	Governmental Activities Estimated Lives
Buildings	25 - 50 Years
Improvements	10 - 50 Years
Machinery, furniture, and equipment	5 - 10 Years
Infrastructure	15 - 75 Years
Sewer systems	25 - 50 Years

**J. Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, with the exception of compensated absences, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements, with the exception of compensated absences.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**L. Compensated Absences**

The criteria for determining compensated absences (i.e., paid absences for employee vacation and sick leave benefit) liability are derived from City policy, negotiated agreements, and state law. Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

In the government-wide financial statements, compensated absences are accrued as liabilities to the extent that it is probable that the benefits will result in termination payments. A liability is reported for compensated absences in the governmental fund financial statements only if they have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement).

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at June 30, 2018 are determined on the basis of current salary rates and include salary related payments.

## CITY OF CLARKSON, KENTUCKY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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Sick pay is charged to the fund financial statements when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. Employees are not eligible for sick pay upon termination or retirement.

The estimated total accumulated amount of unused sick leave at June 30, 2018 totals \$10,669.

#### **M. Fund Balances**

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—prepaid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**Restricted fund balance.** This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed fund balance.** These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Commission - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Commission removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned fund balance.** This classification reflects the amounts constrained by the town's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Commission and Mayor have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

**Unassigned fund balance.** This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

#### **N. Net Position**

Net position represents the difference between assets and deferred outflow and liabilities and deferred inflows. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## CITY OF CLARKSON, KENTUCKY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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#### **O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are primarily charges for services.

#### **P. Pensions and OPEB Plans**

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

#### **Q. Property Taxes**

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.08700 per \$100 valuation for real property, \$0.0870 per \$100 valuation for business personal property and \$0.0870 per \$100 valuation for motor vehicles.

#### **R. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involve entities external to the City are accounted for as revenues, expenditures, or expenses in the funds.

#### **S. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures / expenses.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### **T. Budgetary Process**

Budgetary Basis of Accounting: The City's budgetary process accounts for its transactions the same as the governmental funds, using the modified accrual basis of accounting. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Budget amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

### **U. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used to determine depreciation expense, and the allowance for doubtful accounts among other accounts. Actual results could differ from those estimates.

### **V. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until that period. The City has one item that qualifies as a deferred outflow of resources for CERS pension and OPEB contributions made subsequent to the pension plan's measurement date.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category; that item is the proportionate share of CERS amounts reported for the net difference between projected and actual earnings on pension and OPEB plan investments. This item is reported in the governmental balance sheet and on the statement of net position. These amounts are deferred and recognized as an inflow from resources in the period that the amounts become available.

### **W. Recently Issued And Adopted Accounting Principles**

#### Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the City's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the City's financial statements.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Recently Issued Accounting Principles

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

## **2. CASH AND CASH EQUIVALENTS**

As of June 30, 2018, the City's cash and cash equivalents balances include deposits held in checking accounts and savings accounts, and certificate of deposits. The carrying value of cash and equivalents for the governmental activity accounts and the business-type activity accounts totaled \$180,421 and \$95,738, respectively.

*Custodial Credit Risk:* For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. At June 30, 2018, \$35,048 of the government's bank balance of \$285,048 was uncollateralized and exposed to custodial credit risk.



**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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**3. RECEIVABLES**

As of June 30, 2018, the City's receivables consist of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Occupational taxes	\$ 44,390	\$ -
Insurance premium taxes	21,263	-
Utility franchise tax	8,810	-
Property taxes	399	-
Municipal Aid fund	1,679	-
Sanitation accounts receivable	31,349	-
Other	3,269	-
Sewer accounts receivable	-	22,226
Allowance for doubtful accounts - sanitation	(19,389)	-
Allowance for doubtful accounts - sewer	-	(6,141)
	<hr/>	<hr/>
Total	<u>\$ 91,770</u>	<u>\$ 16,085</u>

**4. TRANSFERS**

The following transfers were made during the year ending June 30, 2018:

<u>From fund</u>	<u>To fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt service	\$ 30,282
General Fund	Sewer Fund	Operating and personnel expenses	39,346

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

**5. CAPITAL ASSETS**

Capital asset activity during the year ended June 30, 2018 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land, general government	\$ 20,908	\$ -	\$ -	\$ 20,908
Construction in process	45,556	16,501	-	62,057
Land, recreation	78,000	-	-	78,000
Total	<u>144,464</u>	<u>16,501</u>	<u>-</u>	<u>160,965</u>
Capital assets being depreciated:				
Buildings and improvements	601,478	15,575	-	617,053
Infrastructure	1,232,558	15,000	-	1,247,558
Equipment - Office, Fire and police department	614,941	92,005	7,961	698,985
Equipment - Municipal Aid Fund	15,900	-	-	15,900
Equipment - Parks and recreation	8,300	-	-	8,300
Total	<u>2,473,177</u>	<u>122,580</u>	<u>7,961</u>	<u>2,587,796</u>
Less: accumulated depreciation				
Buildings and improvements	(304,053)	(11,479)	-	(315,532)
Infrastructure	(1,109,121)	(9,538)	-	(1,118,659)
Equipment - Office, Fire and police department	(395,883)	(72,779)	(6,947)	(461,715)
Equipment - Municipal Aid Fund	(15,897)	-	-	(15,897)
Equipment - Parks and recreation	(5,577)	(430)	-	(6,007)
Total	<u>(1,830,531)</u>	<u>(94,226)</u>	<u>(6,947)</u>	<u>(1,917,810)</u>
Total depreciable capital assets, net	<u>642,646</u>	<u>28,354</u>	<u>1,014</u>	<u>669,986</u>
Governmental activities capital assets, net	<u>\$ 787,110</u>	<u>\$ 44,855</u>	<u>\$ 1,014</u>	<u>\$ 830,951</u>

Depreciation expense attributable to governmental activities was charged to the governmental functions/programs per the statement of activities as follows:

General government	\$ 12,724
Public safety	59,634
Recreation	430
Sanitation	11,900
Streets	9,538
Total depreciation	<u>\$ 94,226</u>

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 94,108	\$ -	\$ -	\$ 94,108
Total	<u>94,108</u>	<u>-</u>	<u>-</u>	<u>94,108</u>
Capital assets being depreciated:				
Equipment	11,503	-	-	11,503
Sewer treatment plant and system	1,938,068	3,644	-	1,941,712
Vehicle	12,700	10,100	12,700	10,100
Total	<u>1,962,271</u>	<u>13,744</u>	<u>12,700</u>	<u>1,963,315</u>
Less: accumulated depreciation	<u>(1,284,794)</u>	<u>(61,229)</u>	<u>(11,215)</u>	<u>(1,334,808)</u>
Total depreciable capital assets, net	<u>677,477</u>	<u>(47,485)</u>	<u>1,485</u>	<u>628,507</u>
Business-type activities capital assets, net	<u>\$ 771,585</u>	<u>\$ (47,485)</u>	<u>\$ 1,485</u>	<u>\$ 722,615</u>

Capital Projects:

Subsequent to June 30, 2018, the City entered into a grant and loan agreement with the U.S.D.A Rural Development and with the U.S. Department of Housing and Urban Development (HUD) to fund a sewer line improvement project. The amounts of grants and loans for the project are as follows:

	<u>Grants</u>	<u>Loan</u>	<u>Total</u>
U.S.D.A. Rural Development	\$ 800,000	\$ 700,000	\$ 1,500,000
U.S. Housing and Urban Development	400,000	-	400,000
	<u>\$ 1,200,000</u>	<u>\$ 700,000</u>	<u>\$ 1,900,000</u>

**6. LONG-TERM OBLIGATIONS**

Long-term debt of the City consists of the following as of June 30, 2018:

	<u>Interest rate</u>	<u>Original Principal</u>	<u>June 30, 2018 Balance</u>
<b>Governmental activities:</b>			
Police vehicle loan	4.490%	\$ 15,091	10,796
City Hall Loan (matures March 2043)	3.920%	\$ 240,000	225,090
Fire truck loan	4.500%	50,072	39,683
Total governmental activities		<u>\$ 305,163</u>	<u>\$ 275,569</u>
<b>Business-type activities:</b>			
1989 Series A Revenue Bonds	5.000%	436,050	214,000
1989 Series B Revenue Bonds	5.000%	1,675,000	114,000
2001 Series C Revenue Bonds	4.500%	206,000	148,000
Total business-type activities		<u>\$ 2,317,050</u>	<u>\$ 476,000</u>

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Annual debt service requirements to maturity are as follows:

	<b>Governmental activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 17,778	10,533	\$ 28,311
2020	17,129	11,265	28,394
2021	18,967	9,426	28,393
2022	17,302	8,614	25,916
2023	5,697	7,903	13,600
2024 - 2028	32,766	35,904	68,670
2029 - 2033	42,812	23,629	66,441
2034 - 2038	53,930	20,945	74,875
2039 - 2043	69,188	8,951	78,139
	<u>\$ 275,569</u>	<u>\$ 137,170</u>	<u>\$ 412,739</u>
	<b>Business-type activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 28,000	\$ 22,948	\$ 50,948
2020	29,000	21,573	50,573
2021	31,000	20,148	51,148
2022	31,500	18,611	50,111
2023	33,500	17,064	50,564
2024 - 2028	194,000	58,863	252,863
2029 - 2033	79,000	17,835	96,835
2034 - 2038	50,000	5,760	55,760
	<u>\$ 476,000</u>	<u>\$ 182,802</u>	<u>\$ 658,802</u>

Long-term liability activity for the year ending June 30, 2018 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due in one year</u>
<b>Governmental activities:</b>					
Police vehicle loan	\$ 13,702	\$ -	\$ (2,906)	\$ 10,796	\$ 2,855
City Hall loan	229,770	-	(4,680)	225,090	4,881
Fire truck loan	-	50,072	(10,389)	39,683	10,042
Compensated absences	4,048	2,777	(3,238.00)	3,587	717
Total governmental activities	<u>\$ 247,520</u>	<u>\$ 52,849</u>	<u>\$ (21,213)</u>	<u>\$ 279,156</u>	<u>\$ 18,495</u>
<b>Business-type activities:</b>					
1989 Series A	\$ 228,000	\$ -	\$ (14,000)	\$ 214,000	\$ 15,000
1989 Series B	122,000	-	(8,000)	114,000	8,000
2001 Series C	152,500	-	(4,500)	148,000	5,000
Total business-type activities	<u>\$ 502,500</u>	<u>\$ -</u>	<u>\$ (26,500)</u>	<u>\$ 476,000</u>	<u>\$ 28,000</u>

During 2018, the City entered into a \$50,072 loan with a local bank to purchase a pumper truck for the fire department. The loan agreement calls for annual payments of principal and interest of \$11,407 at a rate of 4.50%. The loan matures October 2022.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Bond Covenants

Bond covenants stipulate that the annual modified net revenue be at least 1.25 times the maximum annual debt service requirement for all bonds outstanding. Bond covenants stipulate that a sinking fund, reserve fund, and depreciation fund are to receive monthly deposits from the revenue fund until required limits are reached. The City believes it is in compliance with all significant covenants and restrictions, including federal arbitrage regulations.

All bond and interest payments are paid from these restricted funds. These funds and their current requirements are presented in summary as follows:

Revenue Fund - Receipts for services are deposited into this fund and disbursed as follows:

1. Bond and Interest Sinking Fund-There is to be a monthly deposit of an amount equal to one twelfth (1/12) of the next ensuing principal payment due and one sixth (1/6) of the next ensuing interest payment due. These funds are used to pay bond principal and interest obligations on an annual and semi-annual basis.
2. Depreciation Fund-This fund shall receive a monthly deposit of \$426 from the Revenue Fund after the above bond principal and interest transfers have been made. The deposits will continue as long as any bonds remain outstanding and unpaid and the balance in the depreciation account is less than \$51,120. The actual balance of the Depreciation fund at June 30, 2018 totaled \$12,901. Funds have been withdrawn from the fund to maintain the sewer system.

In addition, there shall also be deposited in the Depreciation Fund, as received, the proceeds of all property damage insurance (except public liability) maintained in connection with the sewer system, and the cash proceeds of any surplus, worn out or obsolescent properties of the sewer system, if the same is sold on order of the City. Any fees that may be levied and collected by the City for the privilege of connecting to the System (excluding initial deposits received in aid of the Project, if any) shall be paid, as received, into the Depreciation Fund.

The Depreciation Fund shall be available and may be withdrawn and used by the City, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals or replacements, not included in the Annual Budget of Current Expenses, and the cost of constructing additions and improvements to the sewer system which will either enhance its revenue-producing capacity or provide a high degree of service. This Fund shall also be available for transfer to the Bond and Interest Sinking Fund in order to avoid a default in connection with any bonds payable from the Sinking Fund.

3. Operation and Maintenance Fund- This Fund receives, on a monthly basis, the remaining balance in the Revenue Fund after the above transfer has been made. This Fund is used to pay operating expenses. Any funds remaining after meeting these expenses in excess of two (2) months' operating expense reserve shall be transferred into the Depreciation Fund.

### Conduit Debt:

On June 24, 2016, the City issued Series 2017 (\$6,600,000) Kentucky Industrial Building Revenue Bonds to provide financial assistance to the private company for the acquisition and construction of facilities deemed to be in the public interest. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### 7. FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2018, the City had \$1,100 in nonspendable fund balance related to prepaid expenses and inventory.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the City had \$11,814 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Commission. The Commission must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. There were no committed fund balances at June 30, 2018.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. There were no amounts assigned related to encumbrances at June 30, 2018. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. At June 30, 2018, the City had \$11,724 assigned for parks.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the City has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

### 8. RETIREMENT PLAN

#### COST-SHARING, MULTIPLE-EMPLOYER PLANS

##### ***Plan Descriptions, Contribution Information, and Funding Policies:***

The City participates in two statewide, cost-sharing, multiple-employer, public employers' defined benefit pension plans on behalf of City employees and City police officers. The plans, created under Kentucky Revised Statute (KRS) 78.520, provide for retirement, disability, and death benefits to plan members.

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

*Plan description* – CERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System 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/>.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement  Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 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' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

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

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

Tier 1	Participation date Unreduced retirement  Reduced retirement	Before September 1, 2008 15 years service and 50 years old Or 20 years service and any age At least 5 years service and 55 years old
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**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old Or 25 years service and any age
	Reduced retirement	15 years service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old Or 25 years service and any age
	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' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

Required Contribution

Tier 1	8%
Tier 2	8% + 1% for insurance
Tier 3	8% + 1% for insurance

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

At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability for CERS as follows:

Governmental and Business-type activities:

	<u>CERS Non- Hazardous</u>	<u>CERS Hazardous</u>	<u>Total</u>
Net pension liability	\$ 236,942	\$ 145,736	\$ 382,678

The net pension liability for the plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability for CERS Nonhazardous was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportion of the plans were as follows:

	<u>CERS Non- Hazardous</u>	<u>CERS Hazardous</u>
Proportionate share of net pension liability	0.004048%	0.006532%
Increase / (decrease) from prior year	0.000358%	0.000535%



**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

For the year ended June 30, 2018, the City recognized pension expense of \$48,465. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CERS (non-hazardous):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 294	\$ 6,015
Changes in actuarial assumptions	43,722	-
Difference between projected and actual investment earnings	18,766	15,835
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,852	2,123
Contributions paid to CERS subsequent to the measurement date	<u>13,531</u>	<u>-</u>
	<u>\$ 87,165</u>	<u>\$ 23,973</u>

\$13,531 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year Ending <u>June 30</u>	Pension Expense <u>Amount</u>
2019	\$ 20,696
2020	21,889
2021	10,119
2022	<u>(3,043)</u>
	<u>\$ 49,661</u>

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

CERS (hazardous):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,345	\$ -
Changes in actuarial assumptions	29,071	-
Difference between projected and actual investment earnings	9,559	8,286
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,741	7,595
Contributions paid to CERS subsequent to the measurement date	<u>8,076</u>	<u>-</u>
	<u>\$ 65,792</u>	<u>\$ 15,881</u>

\$8,076 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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<u>Year Ending June 30</u>	<u>Pension Expense Amount</u>
2019	\$ 19,701
2020	16,602
2021	7,123
2022	(1,591)
	<u>\$ 41,835</u>

*Actuarial assumptions* – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions for CERS (CERS Non-Hazardous and CERS Hazardous), applied to all periods included in the measurement:

Inflation	2.30%
Projected salary increases	3.05%
Investment rate of return, net of investment expenses and inflation	6.25%

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major class, as provided by CERS, are summarized in the following table:

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

<u>Asset Class</u>	Target <u>Allocation</u>	Long-term Expected Real <u>Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Deb	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

*Discount rate* – For CERS, 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 employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate* –The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate calculated the amounts in this schedule:

	<u>1% Decrease</u>	Current Discount Rate (6.25%)	<u>1% Increase</u>
City's proportionate share of net pension liability – CERS-Non-Hazardous	\$ 298,942	\$ 236,942	\$ 185,169
City's proportionate share of net pension liability – CERS Hazardous	\$ 183,237	\$ 145,736	\$ 114,766

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The plan is administered by the Kentucky Public Employees' Deferred Compensation Authority. The plan, available to all City employees, permits them to defer a portion of their salary until future years.

### 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (OPEB)

The City participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, which is a cost-sharing multiple-employer defined benefit plan. CERS provides other post-employment benefits to plan members and beneficiaries. The Board of Trustees of Kentucky Retirement Systems (KRS) administers the CERS. CERS issues a publicly available financial report that include financial statements and required supplementary information. The report may be obtained at [www.kyret.ky.gov](http://www.kyret.ky.gov).

Plan description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions – For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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

At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability for CERS as follows:

	<u>CERS Non- Hazardous</u>		<u>CERS Hazardous</u>		<u>Total</u>
Net OPEB liability	\$ 81,379		\$ 53,848		\$ 135,227

The net OPEB liability for each plans was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net OPEB liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the City's proportionate share of the plans were as follows:

	<u>CERS Non- Hazardous</u>	<u>CERS Hazardous</u>
Proportionate share of net OPEB liability	0.004048%	0.006532%

For the year ended June 30, 2018, the City recognized OPEB expense of \$4,288 related to CERS non-hazardous and \$5,266 related to CERS Hazardous.

CERS Non-Hazardous

At June 30, 2018, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 226
Changes in actuarial assumptions	17,705	-
Difference between projected and actual investment earnings	-	3,846
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	188
Contributions paid to TRS subsequent to the measurement date	4,392	-
	<u>\$ 22,097</u>	<u>\$ 4,260</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$4,392 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 2,313
2020	2,313
2021	2,313
2022	2,313
2023	3,275
Thereafter	920
	<u>\$ 13,447</u>

CERS Hazardous

At June 30, 2018, the City reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 125
Changes in actuarial assumptions	19,863	-
Difference between projected and actual investment earnings	-	3,379
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	11
Contributions paid to CERS subsequent to the measurement date	<u>3,402</u>	-
	<u>\$ 23,265</u>	<u>\$ 3,515</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$3,402 resulting from the City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the City's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 4,728
2020	4,728
2021	4,728
2022	2,164
	<u>\$ 16,348</u>

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.83%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 — June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Deb	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

Sensitivity Of The City's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.83%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83%) or 1-percentage-point higher (6.83%) than the current rate:

	<u>1% Decrease 4.83%</u>	<u>Current Discount Rate 5.83%</u>	<u>1% Increase 6.83%</u>
City's proportionate share of net OPEB liability – CERS-Non-Hazardous	\$ 103,550	\$ 81,379	\$ 62,929
City's proportionate share of net OPEB liability – CERS Hazardous	\$ 72,166	\$ 53,848	\$ 38,864



**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Sensitivity of the City’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the City’s proportionate share of the collective net OPEB liability, as well as what the City’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
City’s proportionate share of net OPEB liability – CERS-Non- Hazardous	\$ 62,422	\$ 81,379	\$ 106,022
City’s proportionate share of net OPEB liability – CERS Hazardous	\$ 38,119	\$ 53,848	\$ 73,318

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CERS financial report.

**10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and workers’ compensation claims.

The City contracts with the Kentucky League of Cities Insurance Services (KLCIS), a local government risk pool to insure against workers’ compensation claims.

The City purchases commercial insurance for various risks of loss due to torts, thefts, property damage, errors and omissions, injuries to employees and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**11. CONTINGENCIES**

Litigation

The City is party to pending civil suits that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of these proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal grants

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 government expects such amounts, if any, to be immaterial.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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**12. PRIOR PERIOD ADJUSTMENT**

During fiscal year 2018, the City adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Details of the adjustments are as follows:

	Gvoernmental activities	Business-type activities	Total
Net position, as previously reported	\$ 608,607	\$ 249,579	\$ 858,186
Prior period adjustments:			
Net OPEB liability at 6/30/2017	(65,910)	(30,098)	(96,008)
Deferred outflows related to OPEB	5,763	2,159	7,922
Net position of governmental activities, as restated	\$ 548,460	\$ 221,640	\$ 770,100

**13. TAX ABATEMENT AGREEMENT**

The City has one property tax abatement agreement with a local business who constructed new facilities within the city limits in 2015. Pursuant to the Industrial Building Revenue Bond Act (Section 103.200), the City issued \$6,600,000 of bonds (Series 2015 City of Clarkson, Kentucky Industrial Revenue Building Bonds) to fund the project (See Note 6). The City and the Company entered into a payment in lieu of taxes agreement in accordance with KRS 154.32. Beginning January 1, 2016 and for each calendar year thereafter through the calendar year ending December 31, 2036 (the "PILOT Term"), the Company will make on or before December 1 of each of those years a payment to the City of Clarkson, Kentucky in the amount of \$8,000 (the "Payment in Lieu Amount"). The Company shall have no obligation to pay any other amounts related to ad valorem property taxes to the City during the PILOT Term. At such time as the Bonds are no longer outstanding, the Project shall be transferred by the Issuer to the Company and the real property, improvements and equipment constituting the Project shall be placed on the City tax rolls for assessment and payment of all applicable local ad valorem taxes.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CLARKSON, KENTUCKY**

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET-TO-  
ACTUAL – GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual
<b>REVENUES</b>			
Property taxes	\$ 65,000	\$ 64,100	\$ 62,632
Utility taxes	35,000	37,546	41,632
Occupational taxes	132,000	160,228	160,888
Insurance premium tax	100,000	77,104	76,176
Motor vehicle tax	5,000	4,000	4,072
Licenses and permits	3,500	3,198	3,253
Intergovernmental	1,500	850	-
Grants and contributions	60,300	60,825	72,336
Charges for services	210,000	198,000	197,545
Administrative fees charged to sewer fund	48,000	48,000	48,000
Investment income	-	-	105
Other revenues	6,400	13,850	11,507
Total revenues	<u>666,700</u>	<u>667,701</u>	<u>678,146</u>
<b>EXPENDITURES</b>			
Current:			
General government	335,800	335,800	229,617
Public safety - police	82,386	82,386	67,775
Public safety - fire	51,300	51,300	17,346
Sanitation	101,150	101,150	89,516
Parks and recreation	98,000	78,000	85,882
Streets	-	-	12,517
Capital outlay	40,000	40,000	139,081
Total expenditures	<u>708,636</u>	<u>688,636</u>	<u>641,734</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,936)</u>	<u>(20,935)</u>	<u>36,412</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from issuance of debt	-	-	50,072
Transfers out	(24,000)	(23,260)	(69,628)
Net other financing sources (uses)	<u>(24,000)</u>	<u>(23,260)</u>	<u>(6,818)</u>
Net change in fund balances	\$ (65,936)	\$ (44,195)	29,594
Fund balances - beginning of year	108,000	155,000	202,858
Fund balances - end of year	<u>\$ 42,064</u>	<u>\$ 110,805</u>	<u>\$ 232,452</u>

**CITY OF CLARKSON, KENTUCKY**

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – CERS

YEAR ENDED JUNE 30, 2018

**CERS - Non-Hazardous \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.004048%	0.003690%	0.003771%	0.003935%
City's proportionate share of the net pension liability	\$ 236,942	\$ 181,699	\$ 162,133	\$ 127,663
City's covered-employee payroll	\$ 96,817	\$ 99,251	\$ 96,290	\$ 95,869
City's proportionate share of the net pension liability as a percentage of its covered payroll	245%	183%	168%	133%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	55.50%	59.97%	66.80%

**CERS - Hazardous \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.006532%	0.005997%	0.004401%	0.005894%
City's proportionate share of the net pension liability	\$ 145,736	\$ 102,912	\$ 67,553	\$ 70,835
City's covered-employee payroll	\$ 35,758	\$ 34,269	\$ 32,113	\$ 26,633
City's proportionate share of the net pension liability as a percentage of its covered payroll	408%	300%	210%	266%
Plan fiduciary net position as a percentage of the total pension liability	49.80%	53.95%	57.52%	63.46%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30.

See notes to required supplementary information

**CITY OF CLARKSON, KENTUCKY**

**SCHEDULE OF CONTRIBUTIONS – CERS PENSIONS**

YEAR ENDED JUNE 30, 2018

**CERS - Non-Hazardous \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 13,531	\$ 13,506	\$ 12,327	\$ 12,277
Contributions in relation to the contractually required contribution	<u>13,531</u>	<u>13,506</u>	<u>12,327</u>	<u>12,277</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 93,446	\$ 96,817	\$ 99,251	\$ 96,290
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%

**CERS - Hazardous \***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 8,076	\$ 7,763	\$ 6,943	\$ 6,657
Contributions in relation to the contractually required contribution	<u>8,076</u>	<u>7,763</u>	<u>6,943</u>	<u>6,657</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 36,378	\$ 35,758	\$ 34,269	\$ 32,113
Contributions as a percentage of covered employee payroll	22.20%	21.71%	20.26%	20.73%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

See notes to required supplementary information

# CITY OF CLARKSON, KENTUCKY

## SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – CERS

YEAR ENDED JUNE 30, 2018

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### **CERS - Non-Hazardous \***

	<u>2018</u>
City's proportion of the net OPEB liability	0.004048%
City's proportionate share of the net OPEB liability	\$ 81,379
City's covered-employee payroll	\$ 96,817
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	84%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

### **CERS - Hazardous \***

	<u>2018</u>
City's proportion of the net OPEB liability	0.006532%
City's proportionate share of the net OPEB liability	\$ 53,848
City's covered-employee payroll	\$ 35,758
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	151%
Plan fiduciary net position as a percentage of the total OPEB liability	59.00%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30.

**CITY OF CLARKSON, KENTUCKY**

**SCHEDULE OF CONTRIBUTIONS – CERS OPEB**

**YEAR ENDED JUNE 30, 2018**

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**CERS - Non-Hazardous \***

	<u>2018</u>
Contractually required contribution	\$ 4,392
Contributions in relation to the contractually required contribution	<u>4,392</u>
Contribution (excess) deficiency	<u>\$ -</u>
City's covered-employee payroll	\$ 93,446
Contributions as a percentage of covered employee payroll	4.70%

**CERS - Hazardous \***

	<u>2018</u>
Contractually required contribution	\$ 3,402
Contributions in relation to the contractually required contribution	<u>3,402</u>
Contribution (excess) deficiency	<u>\$ -</u>
City's covered-employee payroll	\$ 36,385
Contributions as a percentage of covered employee payroll	9.35%

\* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will report available information.



# CITY OF CLARKSON, KENTUCKY

## NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

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### **Notes to Budgetary Schedules:**

Note A: The approved budget and amendments are legally enacted through passage of an ordinance authorizing the Mayor to administer the budget and to transfer necessary appropriations among departments. Additional budget appropriations must be approved by the City Commission.

Note B: Actual expenditures and revenues are reported on the modified accrual basis of accounting.

Note C: Deficiency of budgeted revenues and other financing sources over final budgeted expenditures and other financing uses is balanced with available fund balance.

### **Notes to Pension Schedules:**

*Changes of benefit terms.* There were no changes in benefit terms for 2015 through 2018.

*Changes of assumptions:*

2015

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

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

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016 and 2017

No changes.

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

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**Notes to OPEB Schedules**

*Changes of benefit terms.* There were no changes in benefit terms for 2018.

*Changes of assumptions:*

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

**SUPPLEMENTARY INFORMATION**

**CITY OF CLARKSON, KENTUCKY**

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	<u>Municipal Aid Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 10,494	\$ -	\$ 10,494
Intergovernmental receivables	<u>1,679</u>	<u>-</u>	<u>1,679</u>
Total current assets	<u>\$ 12,173</u>	<u>\$ -</u>	<u>\$ 12,173</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 359	\$ -	\$ 359
Accrued liabilities	-	-	-
Total liabilities	<u>359</u>	<u>-</u>	<u>359</u>
 <b>FUND BALANCES</b>			
Restricted	<u>11,814</u>	<u>-</u>	<u>11,814</u>
Total fund balances	<u>11,814</u>	<u>-</u>	<u>11,814</u>
Total liabilities and fund balances	<u>\$ 12,173</u>	<u>\$ -</u>	<u>\$ 12,173</u>

**CITY OF CLARKSON, KENTUCKY**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NON-MAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Municipal Aid Fund	Debt Service Fund	Total Non-Major Governmental Funds
<b>REVENUES</b>			
Intergovernmental	\$ 17,692	\$ -	\$ 17,692
Investment income	5	-	5
Total revenues	<u>17,697</u>	<u>-</u>	<u>17,697</u>
<b>EXPENDITURES</b>			
Current:			
Streets	24,601	-	24,601
Debt service - principal	-	17,975	17,975
Debt service - interest	-	12,307	12,307
Total expenditures	<u>24,601</u>	<u>30,282</u>	<u>54,883</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(6,904)</u>	<u>(30,282)</u>	<u>(37,186)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	30,282	30,282
Net other financing sources (uses)	<u>-</u>	<u>30,282</u>	<u>30,282</u>
Net change in fund balances	(6,904)	-	(6,904)
Fund balances - beginning of year	<u>18,718</u>	<u>-</u>	<u>18,718</u>
Fund balances - end of year	<u>\$ 11,814</u>	<u>\$ -</u>	<u>\$ 11,814</u>

**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 Mayor and City Commissioners  
City of Clarkson  
Clarkson, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Clarkson, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Clarkson, Kentucky's basic financial statements and have issued our report thereon dated July 23, 2019.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2018-001, 2018-002 and 2018-003 to be material weaknesses.

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. We consider the deficiency described in the accompany schedule of findings and responses as finding 2018-004 to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Clarkson, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described as item 2018-005 in the accompanying schedule of findings and responses.

### **City of Clarkson, Kentucky's Responses to Findings**

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

### **Purpose of this Report**

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

*Stiles, Carter & Associates, CPAs, P.C.*  
Bardstown, Kentucky  
July 23, 2019

## CITY OF CLARKSON, KENTUCKY

### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2018

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#### **Finding 2018-001 (Material Weakness)**

Condition: The City does not have a system of internal control over financial reporting that would allow it to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures. During our audit, we noted material adjustments needed in order for the financial statements to be in accordance with accounting principles generally accepted in the United States of America. This is a repeat finding from the prior year.

Criteria: Internal controls should be in place in order for the City to be able to prevent, detect, and correct potential misstatements in its financial statements, as prescribed by Statement of Auditing Standards No. 115, AU Section 325.05. A system of internal control over financial reporting does not consist solely of controls over the proper recording of accounting transactions. Rather, it includes controls over financial statement preparation, including the footnote disclosures.

Cause: As is common in small organizations, the City has financial constraints that prevent the hiring of accounting personnel with the training required to prevent, detect, and correct a significant misstatement in its financial statements, including footnote disclosures.

Effect: The likelihood of the City's financial statements containing significant misstatements is not reduced to a low level because the District's internal controls over financial reporting are not effective.

Recommendation: In order to correct the circumstances described, the City may consider the employment of a highly trained accounting person, such as a CPA or consider engaging a CPA firm to prepare the City's financial statements in accordance with accounting principles generally accepted in the United States.

Views of Responsible Officials and Planned Corrective Action: Management will evaluate the costs versus the benefits of employing a trained accounting professional or another CPA firm to correct this deficiency. Management recognizes that the costs may exceed the benefits and understands, and is willing to accept the risk that its financial statements may contain misstatements that could go undetected.

#### **Finding 2018-002 (Material Weakness)**

Condition: During our audit, we noted reconciliations are being prepared between the occupational tax, insurance premium tax, sewer and garbage revenue billing software (United Systems) and the general ledger. This is a repeat finding from the prior year.

Criteria: The City's management is responsible for establishing and maintaining internal controls including adequate reconciliations of financial systems to the general ledger.

Cause: The City does not reconcile the accounting and billing software (United Systems) to the general ledger for the following significant areas: occupational tax, insurance premium tax, garbage billing and sewer billing.

Effect: Failure to reconcile the accounting and billing software (United Systems) to the general ledger could result in errors or missing funds going undetected.

Recommendation: We recommend the City reconcile the accounting and billing software (United Systems) to the general ledger.



## CITY OF CLARKSON, KENTUCKY

### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2018

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Views of Responsible Officials and Planned Corrective Action: The City will implement the recommendation above in order to strengthen controls over the City's reconciliation process.

#### **Finding 2018-003 (Material Weakness)**

Condition: During our audit, we noted that there was not adequate segregation of duties over receipts, disbursements, and reconciliations at City Hall. The Clerk/Treasurer accepts cash receipts and also records the amounts into the accounting system. The Clerk/Treasurer also enters data into the accounting system, has check signing authority, and performs bank reconciliations without review. This is a repeat finding from the prior year. This is a repeat finding from the prior year.

Criteria: Internal controls are designed to safeguard assets and help or detect losses from errors, omissions, or fraud. A fundamental concept in a good system of internal control is the segregation of duties.

Cause: Limited resources and staff for the City lead to one individual performing incompatible duties related to cash receipts, disbursements, and reconciliations.

Effect: Improper segregation of duties related to cash receipts, disbursements, and reconciliations could result in undetected errors or missing funds.

Recommendation: Although the size of the City's accounting and administrative staff prohibits complete adherence to this concept, we believe that the following practices could be implemented to improve existing internal control without impairing efficiency:

- Mail should be opened by an employee not responsible for accounting, such as the receptionist or the Mayor. Cash receipts could be recorded in a cash receipts journal and the deposit prepared by this person. The cash receipts journal, supplemented by remittance advices, could be forwarded to the Clerk/Treasurer for postings to the general ledger and detail customer accounts.
- Cash receipts should be deposited intact daily. Holding receipts for a weekly deposit exposes the City to loss.
- Bank statements, canceled checks, and appropriate advices should be received by someone other than employees maintaining cash records. Such items could be periodically reviewed prior to turning them over for reconciliation. Unusual items noted during the review should be investigated promptly.
- Signed checks should be also mailed without allowing them to be returned to the employee responsible for accounts payable.
- Management should review supporting documents for normal recurring disbursements (not usually reviewed) on a spot-check basis. Nonroutine testing would aid in ensuring compliance with City policy for all disbursements.
- Journal entries should be approved by an employee other than the one who prepared the entry.
- Bank reconciliations should be reviewed by someone not responsible for entries in the receipts and disbursements records. Inasmuch as this is difficult because of the small number of office employees, we recommend that test reconciliations be made from time to time by one of the Commissioners. In addition, he or she should review, approve, and sign the bank reconciliations to document the approval.

Views of Responsible Officials and Planned Corrective Action: Management will work to implement the above recommendations.

## CITY OF CLARKSON, KENTUCKY

### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2018

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#### **Finding 2018-004 (Significant Deficiency)**

Condition: As part of the audit we noted that cash receipts for the Parks department are received by one person. All park ticket sales and concession sales are received and accounted for by one person. There are no policies or procedures in place to ensure accurate and complete accounting for ticket and concessions sales. This is a repeat finding from the prior year.

Criteria: Internal controls are designed to safeguard assets and help or detect losses from errors, omissions, or fraud. Implementing and adhering to prescribed policies and procedures are critical in meeting this objective.

Cause: The City has not implemented policies or procedures over cash receipts for the park's operations.

Effect: Failure to implement and follow proper procedures over cash receipts could result in undetected errors, omissions, or the loss of funds.

Recommendation: We recommend the City adopt policies over cash receipts for gate ticket sales and concessions sales. At a minimum, the City should require the use of prenumbered tickets to be used for all gate sales and the tickets should be reconciled to the daily cash total. Also, the City should use reconciliation sheets for concession inventory purchased and sold at events daily. The form should reconcile the amount of beginning "change" currency, concession purchases, sales, and ending currency and inventory totals. The form, along with the ticket sales reconciliation, should be used to prepare the deposit totals that the park employee submits to the Clerk to be included in the daily deposit ticket.

Views of Responsible Officials and Planned Corrective Action: Management will work to implement the above recommendations.

#### **Finding 2018-005 (Non-compliance)**

Condition: The City's deposits were not adequately collateralized or insured as of June 30, 2018 in accordance with Kentucky Revised Statute (KRS) 41.240.

Criteria: KRS 41.240 requires public funds be adequately collateralized in order to protect deposits in excess of federally insured limits.

Cause: Deposit amount were not monitored to ensure amounts in excess of insured limits were collateralized by the City's financial institution.

Effect: Failure to comply with KRS 41.240 to adequately collateralize deposits in excess of federal insurance limits could result in loss of public funds should the financial institution fail.

Recommendation: We recommend the City monitor collateral and deposit amounts in order to identify the excess uninsured and uncollateralized bank balances throughout the year (i.e. at least monthly).

Views of Responsible Officials and Planned Corrective Action: Management will monitor deposits and will secure additional pledged collateral from the trustee bank when deposits exceed federal insurance limits.

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
CITY OF CLARKSON, KENTUCKY  
For the Year Ended June 30, 2018

The City of Clarkson, Kentucky hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by applicable Kentucky Revised Statutes.

  
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Mayor

  
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City Clerk