

**CITY OF CLARKSON,
KENTUCKY**

**FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITOR'S REPORT**

JUNE 30, 2019

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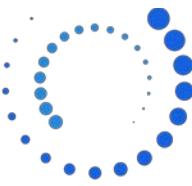
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Heartland CPAs and Advisors PLLC

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, 2019, 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, 2019, 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, 2019, the City adopted Governmental Accounting Standards Board Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. 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 - 48 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarkson's basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not required as part of the basic financial statements.

The combining financial statements and schedule of expenditures of federal awards 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 and schedule of expenditures of federal awards 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 February 15, 2021 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.

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors, PLLC

Elizabethtown, Kentucky

February 15, 2021

CITY OF CLARKSON
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 129,203	\$ 130,136	\$ 259,339
Receivables:			
Taxes, licenses, and fees	80,224	-	80,224
Other accounts receivable, net	12,154	14,875	27,029
Intergovernmental	3,106	246,883	249,989
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
Total current assets	<u>225,787</u>	<u>391,894</u>	<u>617,681</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	51,260	51,260
Non-depreciable capital assets	98,908	1,830,992	1,929,900
Depreciable capital assets, net	<u>693,458</u>	<u>566,401</u>	<u>1,259,859</u>
Total noncurrent assets	<u>792,366</u>	<u>2,448,653</u>	<u>3,241,019</u>
TOTAL ASSETS	<u>1,018,153</u>	<u>2,840,547</u>	<u>3,858,700</u>
DEFERRED OUTFLOWS OF RESOURCES			
OPEB related items	34,917	4,765	39,682
Pension related items	<u>102,740</u>	<u>16,250</u>	<u>118,990</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>137,657</u>	<u>21,015</u>	<u>158,672</u>
LIABILITIES			
Current liabilities:			
Accounts payable	10,905	299,446	310,351
Accrued liabilities	15,316	-	15,316
Customer deposits	-	25,393	25,393
Accrued interest payable	-	12,905	12,905
Compensated absences, current	853	-	853
Loan payable, current	19,554	-	19,554
Bonds payable, current	-	46,500	46,500
Total current liabilities	<u>46,628</u>	<u>384,244</u>	<u>430,872</u>
Noncurrent liabilities:			
Compensated absences, long-term	3,411	-	3,411
Loan payable, long-term	235,620	-	235,620
Bonds payable, long-term	-	1,501,500	1,501,500
Net OPEB liability - CERS	95,779	17,727	113,506
Net pension liability - CERS	<u>326,773</u>	<u>60,805</u>	<u>387,578</u>
Total noncurrent liabilities	<u>661,583</u>	<u>1,580,032</u>	<u>2,241,615</u>
TOTAL LIABILITIES	<u>708,211</u>	<u>1,964,276</u>	<u>2,672,487</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB related items	22,302	4,473	26,775
Pension related items	<u>30,825</u>	<u>7,072</u>	<u>37,897</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>53,127</u>	<u>11,545</u>	<u>64,672</u>
NET POSITION			
Net investment in capital assets	537,192	849,393	1,386,585
Restricted for:			
Debt service	-	51,260	51,260
Capital outlay	-	10,537	10,537
Municipal Aid Road Fund	23,748	-	23,748
Unrestricted	(166,468)	(25,450)	(191,918)
TOTAL NET POSITION	<u>\$ 394,472</u>	<u>\$ 885,740</u>	<u>\$ 1,280,212</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

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	
Governmental activities:								
General government	\$ 322,876	\$ 8,425	\$ 5,921	\$ -	\$ (308,530)	\$ -	\$ (308,530)	
Public safety - police	110,787	275	6,749	-	(103,763)	-	(103,763)	
Public safety - fire	106,890	1,925	51,579	-	(53,386)	-	(53,386)	
Parks and recreation	82,456	32,381	-	-	(50,075)	-	(50,075)	
Sanitation	94,165	149,053	-	-	54,888	-	54,888	
Streets	16,659	-	20,767	-	4,108	-	4,108	
Interest on long-term debt	10,499	-	-	-	(10,499)	-	(10,499)	
Total governmental activities	744,332	192,059	85,016	-	(467,257)	-	(467,257)	
Business-type activities:								
Sewer utilities	263,161	224,531	-	636,780	-	598,150	598,150	
Total primary government	\$ 1,007,493	\$ 416,590	\$ 85,016	\$ 636,780	(467,257)	598,150	130,893	
General Revenues:								
Taxes:								
Property taxes, levied for general purposes					57,282	-	57,282	
Motor vehicle taxes					4,459	-	4,459	
Utility taxes					37,622	-	37,622	
Occupational taxes					165,500	-	165,500	
Insurance premium tax					78,578	-	78,578	
Administrative charges from Sewer Fund					48,000	-	48,000	
Licenses and permits					3,165	59	3,224	
Investment income					97	-	97	
Miscellaneous					6,254	-	6,254	
Insurance proceeds and gain on disposals					-	-	-	
Transfers					(40,903)	40,903	-	
Total general revenues		360,054		40,962		401,016		
Change in Net Position					(107,203)	639,112	531,909	
Net Position, Beginning of Year					501,675	246,628	748,303	
Net Position, End of Year					\$ 394,472	\$ 885,740	\$ 1,280,212	

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON
BALANCE SHEET- GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 108,393	\$ 20,810	\$ 129,203
Taxes receivable	80,224	-	80,224
Intergovernmental receivables	-	3,106	3,106
Other accounts receivable, net	12,154	-	12,154
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
Total current assets	\$ 201,871	\$ 23,916	\$ 225,787
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 10,737	\$ 168	\$ 10,905
Accrued liabilities	15,316	-	15,316
Total liabilities	26,053	168	26,221
FUND BALANCES			
Nonspendable	1,100	-	1,100
Restricted	-	23,748	23,748
Assigned	18,364	-	18,364
Unassigned	156,354	-	156,354
Total fund balances	175,818	23,748	199,566
Total liabilities and fund balances	\$ 201,871	\$ 23,916	\$ 225,787

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balances of governmental funds \$ 199,566

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	\$ 2,815,347
Accumulated depreciation	<u>(2,022,981)</u>
	792,366

Deferred outflows of resources and deferred inflows of resources related to
the City's proportionate share of CERS:

Deferred outflows of resources - OPEB related	34,917
Deferred inflows of resources - OPEB related	(22,302)
Deferred outflows of resources - pension related	102,740
Deferred inflows of resources - pension related	<u>(30,825)</u>
	84,530

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	(4,264)
Net OPEB liability	(95,779)
Net pension liability	(326,773)
Loan payable	<u>(255,174)</u>
	(681,990)

Net position of governmental activities \$ 394,472

CITY OF CLARKSON

STATEMENT OF REVENUES, EXPENDITURES, and CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 57,282	\$ -	\$ 57,282
Utility taxes	37,622	-	37,622
Occupational taxes	165,500	-	165,500
Insurance premium tax	78,578	-	78,578
Motor vehicle tax	4,459	-	4,459
Licenses and permits	3,165	-	3,165
Intergovernmental	-	18,861	18,861
Grants and contributions	66,154	-	66,154
Charges for services	192,059	-	192,059
Administrative fees charged to sewer fund	48,000	-	48,000
Investment income	89	6	95
Other revenues	6,253	-	6,253
Total revenues	<u>659,161</u>	<u>18,867</u>	<u>678,028</u>
EXPENDITURES			
Current:			
General government	255,688	-	255,688
Public safety - police	103,900	-	103,900
Public safety - fire	66,068	-	66,068
Sanitation	94,165	-	94,165
Parks and recreation	82,026	-	82,026
Streets	-	6,933	6,933
Capital outlay	42,151	-	42,151
Debt service - principal	-	20,395	20,395
Debt service - interest	-	10,499	10,499
Total expenditures	<u>643,998</u>	<u>37,827</u>	<u>681,825</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,163</u>	<u>(18,960)</u>	<u>(3,797)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	30,894	30,894
Transfers out	<u>(71,797)</u>	<u>-</u>	<u>(71,797)</u>
Net other financing sources (uses)	<u>(71,797)</u>	<u>30,894</u>	<u>(40,903)</u>
Net change in fund balances	<u>(56,634)</u>	<u>11,934</u>	<u>(44,700)</u>
Fund balances - beginning of year	<u>232,452</u>	<u>11,814</u>	<u>244,266</u>
Fund balances - end of year	<u>\$ 175,818</u>	<u>\$ 23,748</u>	<u>\$ 199,566</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSONRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
BALANCE GOVERNMENTAL FUNDS THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - governmental funds \$ (44,700)

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	\$ 66,586
Depreciation is reported in the government-wide financial statements	<u>(105,171)</u>
	(38,585)

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	20,395
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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	(43,636)
Changes in compensated absences	<u>(677)</u>
	(44,313)

Change in net position of governmental activities	\$ <u>(107,203)</u>
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CITY OF CLARKSON
 STATEMENT OF NET POSITION- PROPRIETARY FUNDS
 JUNE 30, 2019

	Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 130,136
Accounts receivable, net	14,875
Intergovernmental receivable	<u>246,883</u>
Total current assets	<u>391,894</u>
Noncurrent assets:	
Restricted cash and cash equivalents	51,260
Non-depreciable capital assets	1,830,992
Depreciable capital assets, net	<u>566,401</u>
Total noncurrent assets	<u>2,448,653</u>
TOTAL ASSETS	<u><u>2,840,547</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to OPEB	4,765
Deferred outflows related to pensions	<u>16,250</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>21,015</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	299,446
Customer deposits	25,393
Accrued interest payable	12,905
Bonds payable, current	<u>46,500</u>
Total current liabilities	<u>384,244</u>
Noncurrent liabilities:	
Bonds payable, long-term	1,501,500
Net OPEB liability	<u>17,727</u>
Net pension liability	<u>60,805</u>
Total noncurrent liabilities	<u>1,580,032</u>
TOTAL LIABILITIES	<u><u>1,964,276</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to OPEB	4,473
Deferred inflows related to pensions	<u>7,072</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>11,545</u></u>
NET POSITION	
Net investment in capital assets	849,393
Restricted for:	
Debt service	51,260
Capital outay	10,537
Unrestricted	<u>(25,450)</u>
TOTAL NET POSITION	<u><u>\$ 885,740</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION-
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services, net of refunds of \$10,150	\$ 224,531
TOTAL OPERATING REVENUES	<u>224,531</u>
OPERATING EXPENSES:	
Administration fees paid to general fund	48,000
Payroll and related benefits and taxes	37,136
Repairs and maintenance	20,679
Insurance	5,367
Utilities	17,429
General administrative, supplies, and services	48,112
Depreciation expense	62,106
TOTAL OPERATING EXPENSES	<u>238,829</u>
OPERATING LOSS	<u>(14,298)</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	59
Interest expense	(24,332)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(24,273)</u>
CAPITAL CONTRIBUTIONS	
Capital grant	636,780
INCOME BEFORE TRANSFERS	598,209
Transfers in	40,903
CHANGE IN NET POSITION	<u>639,112</u>
NET POSITION, beginning of year	<u>246,628</u>
NET POSITION, end of year	<u>\$ 885,740</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON**STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 225,741
Cash payments to suppliers for goods and services	157,801
Cash payments to employees for services	<u>(43,397)</u>
Net cash provided by operating activities	<u>340,145</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Net transfer in from general fund	<u>40,903</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	-
Principal paid on long-term debt	<u>(28,000)</u>
Interest paid on long-term debt	<u>(22,957)</u>
Net cash used by capital and related financing activities	<u>(296,355)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,752
CASH AND CASH EQUIVALENTS, beginning of year	<u>95,738</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 180,490</u>
Classified as:	
Current assets - cash and cash equivalents	130,136
Restricted assets - cash and cash equivalents	<u>51,260</u>
Total	<u>\$ 181,396</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (14,298)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	62,106
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	1,210
(Increase) decrease in deferred outflows - pension	7,897
Increase (decrease) in accounts payable	297,388
Increase (decrease) in deferred inflows - pension	2,880
Increase (decrease) in net OPEB liability	(5,121)
Increase (decrease) in net pension liability	<u>(11,917)</u>
Net cash provided by operating activities	<u>\$ 340,145</u>
SCHEDULE OF NON-CASH TRANSACTIONS:	
CERS pensions and OPEB	<u>\$ 6,261</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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:

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

F. Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2019 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.

G. 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

H. 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.

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

I. 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.

J. 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

K. 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, 2019 are determined on the basis of current salary rates and include salary related payments.

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, 2019 totals \$4,269.

L. 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

M. 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.

N. 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.

O. 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, 2019, 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.

P. 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Q. 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.

R. 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.

S. 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.

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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 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.

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 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates*. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2020, the GASSB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

2. CASH AND CASH EQUIVALENTS

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, 2019, \$70,018 of the government's bank balance of \$320,018 was uncollateralized and exposed to custodial credit risk.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

3. TRANSFERS

The following transfers were made during the year ending June 30, 2019:

From fund	To fund	Purpose	Amount
General Fund	Debt Service Fund	Debt service	\$ 30,894
General Fund	Sewer Fund	Operations and personnel expenses	40,903

4. CAPITAL ASSETS

Capital assets for the year ending June 30, 2019 are as follows:

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land, general government	\$ 20,908	\$ -	\$ -	\$ 20,908
Construction in process	62,057	24,924	86,981	-
Land, recreation	78,000	-	-	78,000
Total	<u>160,965</u>	<u>24,924</u>	<u>86,981</u>	<u>98,908</u>
Capital assets being depreciated:				
Buildings and improvements	617,053	86,981	-	704,034
Infrastructure	1,247,558	-	-	1,247,558
Equipment - Office, Fire and police department	698,985	41,662	-	740,647
Equipment - Municipal Aid Fund	15,900	-	-	15,900
Equipment - Parks and recreation	8,300	-	-	8,300
Total	<u>2,587,796</u>	<u>128,643</u>	<u>-</u>	<u>2,716,439</u>
Less: accumulated depreciation				
Buildings and improvements	(315,532)	(12,184)	-	(327,716)
Infrastructure	(1,118,659)	(9,725)	-	(1,128,384)
Equipment - Office, Fire and police department	(461,715)	(82,832)	-	(544,547)
Equipment - Municipal Aid Fund	(15,897)	-	-	(15,897)
Equipment - Parks and recreation	(6,007)	(430)	-	(6,437)
Total	<u>(1,917,810)</u>	<u>(105,171)</u>	<u>-</u>	<u>(2,022,981)</u>
Total depreciable capital assets, net	<u>669,986</u>	<u>23,472</u>	<u>-</u>	<u>693,458</u>
Governmental activities capital assets, net	<u>\$ 830,951</u>	<u>\$ 48,396</u>	<u>\$ 86,981</u>	<u>\$ 792,366</u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

General government	\$ 24,811
Public safety	63,318
Recreation	6,887
Sanitation	430
Streets	<u>9,725</u>
Total depreciation	<u><u>\$ 105,171</u></u>

	Beginning balance	Increases	Decreases	Ending balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 94,108	\$ -	\$ -	\$ 94,108
Construction in process	<u>-</u>	<u>1,736,884</u>	<u>-</u>	<u>1,736,884</u>
Total	<u>94,108</u>	<u>1,736,884</u>	<u>-</u>	<u>1,830,992</u>
Capital assets being depreciated:				
Equipment	11,503	-	-	11,503
Sewer treatment plant and system	1,941,712	-	-	1,941,712
Vehicle	<u>10,100</u>	<u>-</u>	<u>-</u>	<u>10,100</u>
Total	<u>1,963,315</u>	<u>-</u>	<u>-</u>	<u>1,963,315</u>
Less: accumulated depreciation	<u>(1,334,808)</u>	<u>(62,106)</u>	<u>-</u>	<u>(1,396,914)</u>
Total depreciable capital assets, net	<u>628,507</u>	<u>(62,106)</u>	<u>-</u>	<u>566,401</u>
Business-type activities capital assets, net	<u><u>\$ 722,615</u></u>	<u><u>\$ 1,674,778</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,397,393</u></u>

During the year ended June 30, 2019, the City capitalized \$14,818 in interest costs.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

5. LONG-TERM OBLIGATIONS

Long-term debt of the City consists of the following as of June 30, 2019:

	Interest rate	Original Principal	June 30, 2019 Balance
Governmental activities:			
Police vehicle loan	4.490%	\$ 15,091	7,829
City Hall Loan (matures March 2043)	3.920%	\$ 240,000	217,628
Fire truck loan	4.500%	50,072	
Total governmental activities		<u>\$ 305,163</u>	<u>\$ 255,174</u>
Business-type activities:			
1989 Series A Revenue Bonds		436,050	
1989 Series B Revenue Bonds		1,675,000	
2001 Series C Revenue Bonds		206,000	
2018 Series A Revenue Bonds		700,000	
2018 Series B Revenue Bonds		400,000	
Total business-type activities		<u>\$ 3,417,050</u>	<u>\$ 1,548,000</u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Annual debt service requirements to maturity are as follows:

	Governmental activities		
	Principal	Interest	Total
2020	19,554	11,265	
2021	19,896	9,425	
2022	13,912	8,614	
2023	5,697	7,903	
2024	5,924	7,677	
2025 - 2029	34,589	34,590	
2030 - 2034	44,744	22,274	
2035 - 2039	56,809	18,785	
2040 - 2044	<u>54,049</u>	<u>6,103</u>	
	<u><u>\$ 255,174</u></u>	<u><u>\$ 126,636</u></u>	<u><u>\$ 381,810</u></u>
	Business-type activities		
	Principal	Interest	Total
2020	\$ 46,500	\$ 34,698	
2021	49,000	44,701	
2022	50,000	42,893	
2023	52,500	40,962	
2024	54,000	39,010	
2025 - 2029	308,500	162,268	
2030 - 2034	156,000	110,338	
2035- 2039	167,000	85,063	
2040 - 2044	140,500	65,455	
2045 - 2049	156,500	49,517	
2050 - 2054	174,000	32,034	
2055 - 2059	<u>193,500</u>	<u>12,656</u>	
	<u><u>\$ 1,548,000</u></u>	<u><u>\$ 719,595</u></u>	<u><u>\$ 2,267,595</u></u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Long-term liability activity for the year ending June 30, 2019 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due in one year
Governmental activities:					
Police vehicle loan	\$ 10,796	\$ -	\$ (2,967)	\$ 7,829	\$ 3,080
City Hall loan	225,090	-	(7,462)	217,628	5,068
Fire truck loan	39,683	-	(9,966)	29,717	11,406
Compensated absences	<u>3,587</u>	<u>2,889</u>	<u>(2,212)</u>	<u>4,264</u>	<u>853</u>
Total governmental activities	<u><u>\$ 279,156</u></u>	<u><u>\$ 2,889</u></u>	<u><u>\$ (22,607)</u></u>	<u><u>\$ 259,438</u></u>	<u><u>\$ 20,407</u></u>
Business-type activities:					
1989 Series A	\$ 214,000	\$ -	\$ (15,000)	\$ 199,000	\$ 16,000
1989 Series B	114,000	-	(8,000)	106,000	8,000
2001 Series C	148,000	-	(5,000)	143,000	5,000
2018 Series A	-	700,000		700,000	11,500
2018 Series B	-	400,000		400,000	6,000
Total business-type activities	<u><u>\$ 476,000</u></u>	<u><u>\$ 1,100,000</u></u>	<u><u>\$ (28,000)</u></u>	<u><u>\$ 1,548,000</u></u>	<u><u>\$ 46,500</u></u>

During the year ended the City issued \$1,100,000 in bonds for the Sewer Fund project. There were two issues each maturing in 2059. One issue in the amount of \$700,000 carries an interest rate of 2.0%. The second issue in the amount of \$400,000 carries an interest rate of 2.375%.

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, 2019 totaled \$24,920. Funds have been withdrawn from the fund to maintain the sewer system.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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.

6. FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2019, 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, 2019, the City had \$23,748 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, 2019.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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, 2019, the City had \$18,364 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.

7. RETIREMENT SYSTEMS

The City participates in the County Employees Retirement System (CERS).

Plan Description - The City participates in the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky, which is a cost-sharing multiple-employer defined benefit plan. CERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers CERS. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained at www.kyret.ky.gov.

This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing multiple employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS.

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2015, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

The 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.

Contributions

For the fiscal year ended June 30, 2019 plan members who began participating prior to September 1, 2008, were required to contribute 5% nonhazardous and 8% hazardous of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate for CERS pensions. Per Kentucky Revised Statute Section 78.545(33) CERS normal contribution and past service contribution

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% for nonhazardous and 9% for hazardous of their annual creditable compensation, 5% for nonhazardous and 8% for hazardous of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% for nonhazardous and 8% for hazardous of their annual creditable compensation.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5% (nonhazardous) and 8% (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (nonhazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The City's contractually required contribution rate for the year ended June 30, 2019, was 16.22 percent of annual creditable compensation for nonhazardous employees and 24.86 percent of annual creditable compensation for hazardous employees. Contributions to the pension plan from the City were \$31,798 (\$14,245 for nonhazardous and \$17,553 for hazardous).

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

At June 30, 2019, the City reported a liability of \$387,579 for its proportionate share of the net pension liability (\$229,605 for nonhazardous and \$157,974 for hazardous). The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the City's proportion was 0.0037700 percent for nonhazardous and 0.006532 percent for hazardous which was an increase of 0.000358 percent for nonhazardous and a decrease of 0.0000180 percent for hazardous from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City recognized pension expense of \$68,709 (\$35,443 for nonhazardous and \$33,266 for hazardous). At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 20,061	\$ 3,361
Changes in actuarial assumptions	39,255	-
Difference between projected and actual investment earnings	16,532	21,067
Changes in proportion and differences between employer contributions and proportionate share of contributions	- 11,344	13,469
Contributions paid to CERS subsequent to the measurement date	<u>31,798</u>	-
	<hr/>	<hr/>
	\$ 118,990	\$ 37,897

The amount reported as deferred outflows for City contributions subsequent to the measurement date of \$31,798 will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2020	\$ 38,468
2021	17,875
2022	(5,101)
2023	<u>(1,947)</u>
	<hr/>
	\$ 49,295

The City also owed \$3,339 to the plan for June 2019.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (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, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013 and adopted by the Board on December 4, 2014.

The long-term expected return on plan assets was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap	5.0%	4.50%
U.S. Mid Cap	6.0%	4.50%
U.S. Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
	100%	

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

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

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
City's proportionate share of the net pension liability - nonhazardous	\$ 289,048	\$ 229,605	\$ 179,801
City's proportionate share of the net pension liability - hazardous	\$ 197,931	\$ 157,974	\$ 124,942

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.

8. RETIREMENT SYSTEMS

The City participates in the County Employees Retirement System (CERS).

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

This system consists of two plans – *Nonhazardous and Hazardous*. Each plan is a cost-sharing multiple employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous and hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS.

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, 2019, 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. The County's contractually required contribution rate for the year ended June 30, 2019, was 5.26 percent of annual creditable compensation for non-hazardous employees and 10.48 percent of annual creditable compensation for hazardous employees. Contributions to the OPEB plan from the City were \$12,023 (\$4,623 for nonhazardous and \$7,400 for hazardous).

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

At June 30, 2019, the City reported a liability of \$113,506 for its proportionate share of the net OPEB liability (\$66,936 for nonhazardous and \$46,570 for hazardous). The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2018, the City's proportion was 0.003770 percent for nonhazardous and 0.006532 percent for hazardous which was a decrease of 0.00027800 percent for nonhazardous and an increase of 0.00001800 percent for hazardous from its proportion measured as of June 30, 2017.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

For the year ended June 30, 2019, the City recognized OPEB expense of \$15,495 (\$7,716 for non-hazardous and \$7,779 for hazardous). At June 30, 2019, 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	\$ -	\$ 13,004
Changes in actuarial assumptions	27,659	282
Difference between projected and actual investment earnings	-	9,038
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Contributions paid to CERS subsequent to the measurement date	<u>12,023</u>	<u>-</u>
	<u>\$ 39,682</u>	<u>\$ 26,775</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$12,023 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, 2020. 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	OPEB Expense Amount
2020	\$ 2,174
2021	2,174
2022	(396)
2023	(991)
2024	(1,402)
Thereafter	<u>(675)</u>
	<u>\$ 884</u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

Actuarial assumptions – The total OPEB liability in the June 30, 2018 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 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Municipal Bond Index Rate	3.62%
Discount Rate – Non-Hazardous	5.85%
Discount Rate – Hazardous	5.97%

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 was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap	5.0%	4.50%
U.S. Mid Cap	6.0%	4.50%
U.S. Small Cap	6.5%	5.50%
International Developed	12.5%	6.50%
Emerging Markets	5.0%	7.25%
Global Bonds	4.0%	3.00%
Global IG Credit	2.0%	3.75%
High Yield	7.0%	5.50%
Emerging Market Debt	5.0%	6.00%
Illiquid Private	10.0%	8.50%
Real Estate	5.0%	9.00%
Absolute Return	10.0%	5.00%
Real Return	10.0%	7.00%
Private Equity	10.0%	6.50%
Cash	2.0%	1.50%
	<hr/> <hr/> 100%	

The projection of cash flows used to determine the discount rate of 5.85% for non-hazardous and 5.97% for hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 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 3.62%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018. 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 5.85% for non-hazardous and 5.97% for hazardous, 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 or 1-percentage-point higher than the current rate:

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
City's proportionate share of the net OPEB liability - nonhazardous	\$ 86,939	\$ 66,936	\$ 49,897
	1% Decrease (4.97%)	Current Discount Rate (5.97%)	1% Increase (6.97%)
City's proportionate share of the net OPEB liability - hazardous	\$ 64,735	\$ 46,570	\$ 32,029

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.

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net OPEB liability - nonhazardous	\$ 49,834	\$ 66,936	\$ 87,093
City's proportionate share of the net OPEB liability - hazardous	\$ 31,717	\$ 46,570	\$ 64,697

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

9. 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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

10. 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.

11. 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.

CITY OF CLARKSON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET-TO-ACTUAL- GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual
REVENUES			
Property taxes	\$ 65,000	\$ 59,500	\$ 57,282
Utility taxes	38,000	36,439	37,622
Occupational taxes	165,000	164,000	165,500
Insurance premium tax	85,000	78,000	78,578
Motor vehicle tax	5,000	4,600	4,459
Licenses and permits	3,500	3,150	3,165
Intergovernmental			-
Grants and contributions	27,500	31,048	66,154
Charges for services	200,000	197,300	192,059
Administrative fees charged to sewer fund	48,000	48,000	48,000
Investment income	-	-	89
Other revenues	27,500	900	6,253
Total revenues	<u>664,500</u>	<u>622,937</u>	<u>659,161</u>
EXPENDITURES			
Current:			
General government	302,586	322,255	255,688
Public safety - police	93,900	121,386	103,900
Public safety - fire	68,407	86,446	66,068
Sanitation	112,700	109,525	94,165
Parks and recreation	72,500	75,948	82,026
Streets	-		-
Capital outlay	20,000	-	42,151
Total expenditures	<u>670,093</u>	<u>715,560</u>	<u>643,998</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,593)</u>	<u>(92,623)</u>	<u>15,163</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	-	-	(71,797)
Net other financing sources (uses)	-	-	(71,797)
Net change in fund balances	\$ (5,593)	\$ (92,623)	(56,634)
Fund balances - beginning of year	<u>145,000</u>	<u>150,073</u>	<u>232,452</u>
Fund balances - end of year	<u>\$ 139,407</u>	<u>\$ 57,450</u>	<u>\$ 175,818</u>

CITY OF CLARKSON

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY - NONHAZARDOUS

June 30, 2019

Last 10 Years *

	2019	2018	2017
Proportion of the net pension liability	0.003770%	0.004048%	0.003690%
Proportionate share of the net pension liability	\$ 229,605	\$ 236,942	\$ 181,699
Covered payroll	\$ 93,446	\$ 96,817	\$ 99,251
Proportionate share of the net pension liability as a percentage of covered payroll	245.7%	244.7%	183.1%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%
	2016	2015	
Proportion of the net pension liability	0.003771%	0.003935%	
Proportionate share of the net pension liability	\$ 162,133	\$ 127,663	
Covered payroll	\$ 96,290	\$ 95,869	
Proportionate share of the net pension liability as a percentage of covered payroll	168.4%	133.2%	
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	

* Fiscal year 2015 was the first year of implementation, therefore, only five years are shown.

CITY OF CLARKSON

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY - HAZARDOUS

June 30, 2019

Last 10 Years *

	2019	2018	2017
Proportion of the net pension liability	0.006532%	0.005632%	0.005997%
Proportionate share of the net pension liability	\$ 157,974	\$ 145,736	\$ 102,912
Covered payroll	\$ 36,378	\$ 35,758	\$ 34,269
Proportionate share of the net pension liability as a percentage of covered payroll	434.3%	407.6%	300.3%
Plan fiduciary net position as a percentage of the total pension liability	49.26%	49.78%	53.95%
	2016	2015	
Proportion of the net pension liability	0.004401%	0.589400%	
Proportionate share of the net pension liability	\$ 67,553	\$ 70,835	
Covered payroll	\$ 32,113	\$ 26,633	
Proportionate share of the net pension liability as a percentage of covered payroll	210.4%	266.0%	
Plan fiduciary net position as a percentage of the total pension liability	57.52%	63.46%	

* Fiscal year 2015 was the first year of implementation, therefore, only five years are shown.

CITY OF CLARKSON

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION - NONHAZARDOUS

June 30, 2019

Last 10 Years *

	2019	2018	2017
Contractually required contribution (actuarially determined)	\$ 14,245	\$ 13,531	\$ 13,506
Contribution in relation to the actuarially determined contributions	<u>14,245</u>	<u>13,531</u>	<u>13,506</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 87,824	\$ 93,446	\$ 96,817
Contributions as a percentage of covered payroll	16.22%	14.48%	13.95%
	2016	2015	
Contractually required contribution (actuarially determined)	\$ 12,327	\$ 12,277	
Contribution in relation to the actuarially determined contributions	<u>12,327</u>	<u>12,277</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 99,251	\$ 96,290	
Contributions as a percentage of covered payroll	12.42%	12.75%	

* Fiscal year 2015 was the first year of implementation, therefore, only five years are shown.

CITY OF CLARKSON

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION - HAZARDOUS

June 30, 2019

Last 10 Years *

	2019	2018	2017
Contractually required contribution (actuarially determined)	\$ 17,553	\$ 8,076	\$ 7,763
Contribution in relation to the actuarially determined contributions	<u>17,553</u>	<u>8,076</u>	<u>7,763</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 70,607	\$ 36,378	\$ 35,758
Contributions as a percentage of covered payroll	24.86%	22.20%	21.71%
	<u>2016</u>	<u>2015</u>	
Contractually required contribution (actuarially determined)	\$ 6,943	\$ 6,657	
Contribution in relation to the actuarially determined contributions	<u>6,943</u>	<u>6,657</u>	
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
Covered payroll	\$ 34,269	\$ 32,113	
Contributions as a percentage of covered payroll	20.26%	20.73%	

* Fiscal year 2015 was the first year of implementation, therefore, only five years are shown.

CITY OF CLARKSON

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY - NONHAZARDOUS

June 30, 2019

Last 10 Years *

	<u>2019</u>	<u>2018</u>
Proportion of the net OPEB liability	0.003770%	0.004048%
Proportionate share of the net OPEB liability	\$ 66,936	\$ 81,379
Covered payroll	\$ 93,446	\$ 96,817
Proportionate share of the net OPEB liability as a percentage of covered payroll	71.63%	84.05%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.39%

* Fiscal year 2018 was the first year of implementation, therefore, only two years are shown.

CITY OF CLARKSON

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY - HAZARDOUS

June 30, 2019

Last 10 Years *

	2019	2018
Proportion of the net OPEB liability	0.006532%	0.006532%
Proportionate share of the net OPEB liability	\$ 46,570	\$ 53,848
Covered payroll	\$ 36,385	\$ 35,758
Proportionate share of the net OPEB liability as a percentage of covered payroll	127.99%	150.59%
Plan fiduciary net position as a percentage of the total OPEB liability	64.24%	58.99%

* Fiscal year 2018 was the first year of implementation, therefore, only two years are shown.

CITY OF CLARKSON

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB - NON-HAZARDOUS

June 30, 2019

Last 10 Years *

	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 4,623	\$ 4,392
Contribution in relation to the actuarially determined contributions	<u>4,623</u>	<u>4,392</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 87,900	\$ 93,446
Contributions as a percentage of covered employee payroll	5.26%	4.70%

* Fiscal year 2018 was the first year of implementation, therefore, only two years are shown.

CITY OF CLARKSON

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB - HAZARDOUS

June 30, 2019

Last 10 Years *

	<u>2019</u>	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 7,400	\$ 3,402
Contribution in relation to the actuarially determined contributions	<u>7,400</u>	<u>3,402</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 70,607	\$ 36,385
Contributions as a percentage of covered employee payroll	10.48%	9.35%

* Fiscal year 2018 was the first year of implementation, therefore, only two years are shown.

CITY OF CLARKSON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – CERS PENSION

FOR THE YEAR ENDED JUNE 30, 2019

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2019.

Changes of assumptions (as of June 30 of the year of measurement date):

2014

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.

2015 and 2016 - No changes.

2017 - 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%.

2018 - No changes.

CITY OF CLARKSON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – CERS OPEB

FOR THE YEAR ENDED JUNE 30, 2019

Changes of benefit terms. There were no changes in benefit terms for 2018 to 2019.

Changes of assumptions(as of June 30 of the year of measurement date):

2017

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%.

2018 - No changes.

CITY OF CLARKSON

COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2019

	Municipal Aid Fund	Debt Service Fund	Total Non-Major Governmental Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 20,810	\$ -	\$ 20,810
Intergovernmental receivables	3,106	-	3,106
Total current assets	\$ 23,916	\$ -	\$ 23,916
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 168	\$ -	\$ 168
Accrued liabilities	-	-	-
Total liabilities	168	-	168
FUND BALANCES			
Restricted	23,748	-	23,748
Total fund balances	23,748	-	23,748
Total liabilities and fund balances	\$ 23,916	\$ -	\$ 23,916

CITY OF CLARKSON**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE-
NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2019

	Municipal Aid Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 18,861	\$ -	\$ 18,861
Investment income	6	-	6
Total revenues	<u>18,867</u>	<u>-</u>	<u>18,867</u>
EXPENDITURES			
Current:			
Streets	6,933	-	6,933
Debt service - principal	-	20,395	20,395
Debt service - interest	-	10,499	10,499
Total expenditures	<u>6,933</u>	<u>30,894</u>	<u>37,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,934</u>	<u>(30,894)</u>	<u>(18,960)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	30,894	30,894
Net other financing sources (uses)	-	30,894	30,894
Net change in fund balances	11,934	-	11,934
Fund balances - beginning of year	11,814	-	11,814
Fund balances - end of year	<u>\$ 23,748</u>	<u>\$ -</u>	<u>\$ 23,748</u>

CITY OF CLARKSON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY'S IDENTIFYIN G NUMBER	PAID TO SUBRECIPIENTS	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Waste and Waste Disposal Systems for Rural Communities	10.760	N/A		\$ 1,338,280
TOTAL U.S. DEPT. OF AGRICULTURE				<u>1,338,280</u>
<u>U.S. DEPT. OF HOUSING AND URBAN DEVELOPMENT</u>				
CDBG Block Grant	14.218	N/A		<u>390,000</u>
TOTAL U.S. DEPT. OF HOUSING AND URBAN AND DEVELOPMENT				<u>390,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	<u>\$ 1,728,280</u>

The accompanying notes are an integral part of this schedule.

CITY OF CLARKSON

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Clarkson under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of City of Clarkson, Kentucky, it is not intended to and does not present the financial position, changes in net position or cash flows of City of Clarkson, Kentucky.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

The District has elected to not use the 10 percent de minimum indirect cost rate allowed under the Uniform Guidance.

CITY OF CLARKSON
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes none reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

CFDA Number	Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

CITY OF CLARKSON
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section II- Financial Statement Findings

Finding 2019-001

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.

CITY OF CLARKSON
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding 2019-002

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.

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 2019-003

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.

CITY OF CLARKSON
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding 2019-003 (Continued)

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
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Finding 2019-004

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 2019-005

Condition: The City's deposits were not adequately collateralized or insured as of June 30, 2019 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.

CITY OF CLARKSON
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section III – Federal Award Findings and Questioned Costs

REFERENCE NUMBER 2019-006

Waste and Waste Disposal Systems for Rural Communities – CFDA 10.760

Material Weakness – Written Procedures

Criteria: Part 200 of Title 2 of the U.S. Code of Federal Regulations titled, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, requires written procedures for payments, procurement, allowability of costs, compensation and travel costs when using federal funds.

Condition: The District's policies and procedures were not in accordance with federal requirements.

Questioned Costs: None.

Context: This was noted during a review of procedures.

Effect: The District could have not followed the Uniform Administrative Guidance

Cause: The District had not updated its procedures for the requirements.

Recommendation: The District should adopt the required procedures.

Views of Responsible Officials and Planned Corrective Actions: The City will implement the procedures.

CITY OF CLARKSON
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

Finding 2018-001

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.

CITY OF CLARKSON
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

Finding 2018-002

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.

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

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.

CITY OF CLARKSON

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

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
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

Finding 2018-004

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

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.

INTERNAL CONTROL AND FISCAL COMPLIANCE



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**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**

City of Clarkson, Kentucky
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 and each major fund of the City of Clarkson, Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise City of Clarkson, Kentucky basic financial statements and have issued our report thereon dated February 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Clarkson, Kentucky's internal control over financial reporting (internal control) as a basis for designing auditing 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 the City of Clarkson, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 considered the deficiencies described in item 2019-001 to 2019-005 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Clarkson, Kentucky's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Clarkson, Kentucky's Response to Findings

City of Clarkson, Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Clarkson, Kentucky's response and, accordingly, we express no opinion on it.

Purpose of this Report

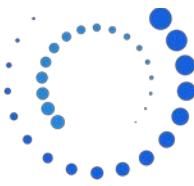
This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance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

Heartland CPAs and Advisors PLLC

Heartland CPAs and Advisors PLLC

Elizabethtown, Kentucky

February 15, 2021



HCA

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

City of Clarkson, Kentucky
Clarkson, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Clarkson, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Clarkson, Kentucky's major federal programs for the year ended June 30, 2019. City of Clarkson, Kentucky's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Clarkson, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Meade County District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Clarkson, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Clarkson, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended City of Clarkson, Kentucky.

Report on Internal Control Over Compliance

Management of City of Clarkson, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Clarkson, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Clarkson, Kentucky's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-006 that we consider to be a material weakness.

City of Clarkson, Kentucky's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Clarkson, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Heartland CPAs and Advisors PLLC
Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
February 15, 2021

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF CLARKSON, KENTUCKY
For the Year Ended June 30, 2019

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.

Mayor

City Clerk