

**CITY OF CLARKSON,  
KENTUCKY**

FINANCIAL STATEMENTS, SUPPLEMENTARY  
INFORMATION AND INDEPENDENT  
AUDITOR'S REPORT

JUNE 30, 2016

**CITY OF CLARKSON, KENTUCKY**

**TABLE OF CONTENTS**  
**JUNE 30, 2016**

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	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	1- 2
<b>Financial Statements:</b>	
Statement of Net Position .....	3
Statement of Activities .....	4
Balance Sheet - Governmental Funds.....	5
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities .....	8
Statement of Net Position - Proprietary Funds .....	9
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds .....	10
Statement of Cash Flows - Proprietary Funds.....	11
Notes to Financial Statements.....	12 - 33
<b>Required Supplementary Information:</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget-to-Actual - General Fund.....	34
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget-to-Actual – Municipal Aid Fund.....	35
Schedule of Proportionate Share of the Net Pension Liability - CERS .....	36
Schedule of Contributions - CERS .....	37
Notes to Required Supplementary Information .....	38
<b>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 <i>Government Auditing Standards</i></b> .....	39 - 40
<b>Schedule of Findings and Responses</b> .....	41 - 43
<b>Schedule of Prior Year Findings</b> .....	44
<b>Appendix A: Certificate of Compliance Local Government Economic Assistance Program</b> .....	45

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STILES, CARTER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
WWW.SCACPA.COM

CHRIS R. CARTER, CPA  
ANN M. FISHER, CPA  
SCOTT KISSELBAUGH, CPA  
PHILIP A. LOGSDON, CPA  
BRIAN S. WOOSLEY, CPA

AMERICAN INSTITUTE OF CPAS  
KENTUCKY SOCIETY OF CPAS

## 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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, 2016, 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.

## **Change in Accounting Principle**

As discussed in Note 13 to the financial statements, the City changed its accounting for infrastructure from the modified approach to the depreciation method. As a result, the City recorded a prior period adjustment of \$87,622. Our opinion is not modified with respect to that matter.

## Other Matters

### *Required Supplementary Information*

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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and pension schedules on pages 34 - 38 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2017 on our consideration of the City of Clarkson, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clarkson, Kentucky's internal control over financial reporting and compliance.

*Stiles, Carter & Associates*

Bardstown, Kentucky  
September 11, 2017

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF NET POSITION  
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 132,471	\$ 26,083	\$ 158,554
Receivables:			
Taxes, licenses, and fees, net	73,922	-	73,922
Other accounts receivable, net	14,614	13,414	28,028
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
Total current assets	<u>222,107</u>	<u>39,497</u>	<u>261,604</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	34,827	34,827
Non-depreciable capital assets	102,998	94,108	197,106
Depreciable capital assets, net	665,434	724,832	1,390,266
Total noncurrent assets	<u>768,432</u>	<u>853,767</u>	<u>1,622,199</u>
<b>TOTAL ASSETS</b>	<u>\$ 990,539</u>	<u>\$ 893,264</u>	<u>\$ 1,883,803</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related items	<u>\$ 39,464</u>	<u>\$ 4,238</u>	<u>43,702</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 7,584	\$ 400	\$ 7,984
Accrued liabilities	10,621	-	10,621
Deferred revenues	-	23,428	23,428
Accrued interest payable	-	12,807	12,807
Loan payable, current	4,576	-	4,576
Bonds payable, current	-	25,500	25,500
Total current liabilities	<u>22,781</u>	<u>62,135</u>	<u>84,916</u>
Noncurrent liabilities:			
Compensated absences, long-term	3,351	-	3,351
Loan payable, long-term	230,101	-	230,101
Bonds payable, long-term	-	502,500	502,500
Net pension liability - CERS	206,501	23,185	229,686
Total noncurrent liabilities	<u>439,953</u>	<u>525,685</u>	<u>965,638</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 462,734</u>	<u>\$ 587,820</u>	<u>\$ 1,050,554</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension related items	<u>\$ 19,297</u>	<u>\$ 605</u>	<u>\$ 19,902</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 430,757	\$ 290,940	\$ 721,697
Restricted for:			
Debt service	-	25,323	25,323
Capital outlay	-	9,504	9,504
Municipal Aid Road Fund	15,994	-	15,994
Unrestricted	101,221	(16,690)	84,531
<b>TOTAL NET POSITION</b>	<u>\$ 547,972</u>	<u>\$ 309,077</u>	<u>\$ 857,049</u>

See accompanying notes to the financial statements.

**CITY OF CLARKSON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Programs/Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 331,722	6,250	4,318	\$ -	\$ (321,154)	\$ -	\$ (321,154)
Public safety - police	60,288	32	4,372	-	(55,884)	-	(55,884)
Public safety - fire	37,593	-	37,304	-	(289)	-	(289)
Parks and recreation	85,878	65,429	350	-	(20,099)	-	(20,099)
Sanitation	79,431	157,737	19,157	-	97,463	-	97,463
Streets	15,538	-	-	-	(15,538)	-	(15,538)
Interest on long-term debt	9,323	-	-	-	(9,323)	-	(9,323)
Total governmental activities	619,773	229,448	65,501	-	(324,824)	-	(324,824)
<b>Business-type activities:</b>							
Water and sewer utilities	217,697	180,110	-	-	-	(37,587)	(37,587)
Total primary government	\$ 837,470	\$ 409,558	\$ 65,501	\$ -	(324,824)	(37,587)	(362,411)
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property taxes, levied for general purposes					50,880	-	50,880
Motor vehicle taxes					5,019	-	5,019
Utility taxes					43,061	-	43,061
Occupational taxes					157,618	-	157,618
Insurance premium tax					71,970	-	71,970
Administrative charges from Sewer Fund					48,000	-	48,000
Licenses and permits					6,468	6	6,474
Investment income					65	-	65
Miscellaneous					6,260	-	6,260
Transfers					(92,882)	92,882	-
Total general revenues					296,459	92,888	389,347
Change in Net Position					(28,365)	55,301	26,936
Net Position, Beginning of Year (as previously reported)					470,343	272,148	742,491
Prior Period Adjustments					105,994	(18,372)	87,622
Net Position, Beginning of Year (Restated)					576,337	253,776	830,113
Net Position, End of Year					\$ 547,972	\$ 309,077	\$ 857,049

See accompanying notes to the financial statements.

**CITY OF CLARKSON, KENTUCKY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	Major Funds		Non-Major Fund	Total Governmental Funds
	General Fund	Municipal Aid Fund	Debt Service Fund	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 118,984	\$ 13,487	\$ -	\$ 132,471
Taxes receivable	73,922	-	-	73,922
Intergovernmental receivables	-	3,006	-	3,006
Other accounts receivable, net	11,608	-	-	11,608
Inventory	1,000	-	-	1,000
Prepaid expenses	100	-	-	100
<b>Total current assets</b>	<b>\$ 205,614</b>	<b>\$ 16,493</b>	<b>\$ -</b>	<b>\$ 222,107</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 7,085	\$ 499	\$ -	\$ 7,584
Accrued liabilities	10,621	-	-	10,621
<b>Total liabilities</b>	<b>17,706</b>	<b>499</b>	<b>-</b>	<b>18,205</b>
<b>FUND BALANCES</b>				
Nonspendable	1,100	-	-	1,100
Restricted	-	15,994	-	15,994
Assigned	12,707	-	-	12,707
Unassigned	174,101	-	-	174,101
<b>Total fund balances</b>	<b>187,908</b>	<b>15,994</b>	<b>-</b>	<b>203,902</b>
<b>Total liabilities and fund balances</b>	<b>\$ 205,614</b>	<b>\$ 16,493</b>	<b>\$ -</b>	<b>\$ 222,107</b>

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2016

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Total fund balances of governmental funds	\$	203,902
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	\$ 2,520,014	
Accumulated depreciation	<u>(1,751,582)</u>	768,432
Deferred outflows of resources and deferred inflows of resources related to the City's proportionate share of CERS:		
Deferred outflows of resources - pension related	39,464	
Deferred inflows of resources - pension related	<u>(19,297)</u>	20,167
Long-term liabilities, including loan payable, are not due and payable in the current period; therefore, they are not reported in governmental funds:		
Compensated absences	(3,351)	
Net pension liability	(206,501)	
Loan payable	<u>(234,677)</u>	<u>(444,529)</u>
Net position of governmental activities	\$	<u><u>547,972</u></u>

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See accompanying notes to financial statements.



**CITY OF CLARKSON, KENTUCKY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Major Funds		Non-Major Fund	Total Governmental Funds
	General Fund	Municipal Aid Fund	Debt Service Fund	
<b>REVENUES</b>				
Property taxes	\$ 50,880	\$ -	\$ -	\$ 50,880
Utility taxes	43,061	-	-	43,061
Occupational taxes	157,618	-	-	157,618
Insurance premium tax	71,970	-	-	71,970
Motor vehicle tax	5,019	-	-	5,019
Licenses and permits	6,468	-	-	6,468
Intergovernmental	-	18,139	-	18,139
Grants and contributions	47,361	-	-	47,361
Charges for services	229,448	-	-	229,448
Administrative fees charged to sewer fund	48,000	-	-	48,000
Investment income	51	14	-	65
Other revenues	6,263	-	-	6,263
<b>Total revenues</b>	<b>666,139</b>	<b>18,153</b>	<b>-</b>	<b>684,292</b>
<b>EXPENDITURES</b>				
Current:				
General government	280,802	-	-	280,802
Public safety - police	59,725	-	-	59,725
Public safety - fire	37,593	-	-	37,593
Sanitation	55,872	-	-	55,872
Parks and recreation	80,645	-	-	80,645
Streets	-	58,981	-	58,981
Capital outlay	6,746	-	-	6,746
Debt service - principal	-	-	4,285	4,285
Debt service - interest	-	-	9,323	9,323
<b>Total expenditures</b>	<b>521,383</b>	<b>58,981</b>	<b>13,608</b>	<b>593,972</b>
Excess (deficiency) of revenues over (under) expenditures	144,756	(40,828)	(13,608)	90,320
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	13,608	13,608
Transfers out	(106,490)	-	-	(106,490)
<b>Net other financing sources (uses)</b>	<b>(106,490)</b>	<b>-</b>	<b>13,608</b>	<b>(92,882)</b>
<b>Net change in fund balances</b>	<b>38,266</b>	<b>(40,828)</b>	<b>-</b>	<b>(2,562)</b>
Fund balances - beginning of year	149,642	56,822	-	206,464
Fund balances - end of year	\$ 187,908	\$ 15,994	\$ -	\$ 203,902

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Net change in fund balances - governmental funds	\$	(2,562)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>		
Capital outlays are reported as an expenditure in the fund financial statements but are capitalized in the government-wide financial statements	\$ 59,848	
Depreciation is reported in the government-wide financial statements	<u>(78,413)</u>	(18,565)
<p>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</p>		
Principal debt payments		4,285
<p>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.</p> <p>These activities include:</p>		
Pension expense related to changes in the net pension liability and the net changes in deferred inflows and deferred outflows related to CERS	(8,867)	
Changes in compensated absences	<u>(2,656)</u>	<u>(11,523)</u>
Change in net position of governmental activities	\$	<u><u>(28,365)</u></u>

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See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2016

	Sewer Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 26,083
Accounts receivable, net	13,414
Total current assets	<u>39,497</u>
Noncurrent assets:	
Restricted cash and cash equivalents	34,827
Non-depreciable capital assets	94,108
Depreciable capital assets, net	724,832
Total noncurrent assets	<u>853,767</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 893,264</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pension	<u><u>\$ 4,238</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 400
Customer deposits	23,428
Accrued interest payable	12,807
Bonds payable, current	25,500
Total current liabilities	<u>62,135</u>
Noncurrent liabilities:	
Bonds payable, long-term	502,500
Net pension liability	23,185
Total noncurrent liabilities	<u>525,685</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 587,820</u></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pension	<u><u>\$ 605</u></u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 290,940
Restricted for:	
Debt service	25,323
Capital outlay	9,504
Unrestricted	<u>(16,690)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 309,077</u></u>

See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016

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	Sewer Fund
OPERATING REVENUES	
Charges for services, net of refunds of \$9,237	180,110
TOTAL OPERATING REVENUES	<u>180,110</u>
OPERATING EXPENSES:	
Administration fees paid to general fund	48,000
Repairs and maintenance	17,539
Insurance	479
Utilities	13,215
General administrative, supplies, and services	57,571
Depreciation expense	54,689
TOTAL OPERATING EXPENSES	<u>191,493</u>
OPERATING INCOME (LOSS)	<u>(11,383)</u>
NONOPERATING REVENUES (EXPENSES):	
Investment income	6
Interest expense	(26,204)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(26,198)</u>
INCOME (LOSS) BEFORE TRANSFERS	(37,581)
Transfers in	92,882
CHANGE IN NET POSITION	<u>55,301</u>
NET POSITION, beginning of year	272,148
Prior Period Restatement	(18,372)
NET POSITION, beginning of year, restated	<u>253,776</u>
NET POSITION, end of year	<u><u>\$ 309,077</u></u>

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See accompanying notes to financial statements.

**CITY OF CLARKSON, KENTUCKY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

	Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 188,249
Cash payments to suppliers for goods and services	(117,989)
Cash payments to employees for services	(22,300)
Net cash provided by operating activities	47,960
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Net transfer in from general fund	92,882
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(95,815)
Principal paid on long-term debt	(24,000)
Interest paid on long-term debt	(26,795)
Net cash used in capital and related financing activities	(146,610)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Investment income	6
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(5,762)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	66,672
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 60,910
<b>Classified as:</b>	
Current assets - cash and cash equivalents	26,083
Restricted assets - cash and cash equivalents	34,827
Total	\$ 60,910
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ (11,383)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	54,689
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	6,186
(Increase) decrease in deferred outflows - pension	(1,749)
Increase (decrease) in accounts payable	(4,665)
Increase (decrease) in deferred revenues	1,953
Increase (decrease) in deferred inflows - pension	(1,490)
Increase (decrease) in net pension liability	4,419
Net cash provided by operating activities	\$ 47,960

See accompanying notes to financial statements.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

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

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

The financial statements of the City of Clarkson, Kentucky include the funds, account groups and entities over which the Mayor and Commission exercise significant oversight responsibility. Oversight responsibility, as defined by Section 2100 of the Government Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, was determined based on the City's ability to significantly influence operations, select the governing body, and participate in fiscal management and the scope of public service.

#### B. Basis of Presentation

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

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

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

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

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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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 liabilities, 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standard Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The City has elected not to follow subsequent private-sector guidance.

### **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.

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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The City reports the following major governmental funds:

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.

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.

The City reports the following non-major fund:

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

### **Proprietary Fund Financial Statements**

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

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

The City reports the following major proprietary fund:

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

Criteria for determining if other entities are potential component units which should be reported within the City's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations that the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.



**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

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

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

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

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

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

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

**G. Prepaid Expenses**

Payments made that will benefit periods beyond June 30, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventories**

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

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**I. Capital Assets**

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

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:

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

**J. Unearned Revenue**

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

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

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

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

**L. Compensated Absences**

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

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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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, 2016 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, 2016 totals \$11,929.

### **M. Fund Balances**

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

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

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

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

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

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

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

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### **N. Net Position**

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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.

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

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, those revenues are primarily property taxes.

### **P. Pensions**

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

### **Q. Property Taxes**

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.08400 per \$100 valuation for real property, \$0.0840 per \$100 valuation for business personal property and \$0.0840 per \$100 valuation for motor vehicles.

### **R. Interfund Balances**

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

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

### **S. Interfund Activity**

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

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# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### T. Budgetary Process

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

### U. Use of Estimates

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

### V. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

## 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of June 30, 2016, the City's cash and cash equivalents balances include deposits held in checking accounts, savings accounts, and certificate of deposits. The carrying value of cash and equivalents for the governmental activity accounts and the business-type activity accounts totaled \$132,471 and \$60,910, respectively.

*Custodial Credit Risk:* For an investment, 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. As of June 30, 2016, the City's cash and cash equivalent funds are substantially covered by federal depository insurance or by collateral held by the custodial banks in the City's name.

*Credit Risk:* Under KRS 66.480, the City is permitted to invest in the following:

- obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

- o obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States Government agency
- o obligations of any corporation of the United States Government
- o certificates of deposit issued by, or other interest-bearing accounts of, any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity, or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(4)
- o uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency
- o bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency
- o commercial paper rated in the highest category by a nationally recognized rating agency
- o bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities
- o securities issued by a state or local government, or any instrumentality of an agency thereof in the United States, and rated in one of the three highest categories by a nationally recognized rating agency
- o shares of mutual funds (the mutual fund shall be an open and diversified investment company registered under the Federal Investment Company Act of 1940, as amended; the management company of the investment company shall have been in operation for at least five years; and all securities in the mutual funds shall be eligible investments pursuant to the above)

*Concentration of Credit Risk:* The amount invested at any time by the City in uncollateralized certificates of deposit issued by any bank or savings and loan institution, bankers' acceptances, commercial paper, or securities issued by a state or local government, or any instrumentality of an agency thereof in the United States (as described above), shall not exceed 20% of the total amount invested by the City. With the exception of fully insured or fully collateralized investments and demand deposit accounts, no more than 20% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution.

*Interest Rate Risk:* The City's investment policy does not address policies relative to investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**3. RECEIVABLES**

As of June 30, 2016, the City's receivables consist of the following:

	Governmental Activities	Business-type Activities
Occupational taxes	\$ 43,391	\$ -
Insurance premium taxes	19,897	-
Utility franchise tax	7,227	-
Property taxes	561	-
Municipal Aid fund	3,006	-
Sanitation accounts receivable	19,575	-
Other	2,846	-
Sewer accounts receivable	-	22,240
Allowance for doubtful accounts	(7,967)	(8,826)
<b>Total</b>	<b>\$ 88,536</b>	<b>\$ 13,414</b>

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**4. CAPITAL ASSETS**

Capital asset activity during the year ended June 30, 2016 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land, general government	\$ 20,908	\$ -	\$ -	\$ 20,908
Construction in process	-	4,090	-	4,090
Land, recreation	78,000	-	-	78,000
Total	<u>98,908</u>	<u>4,090</u>	<u>-</u>	<u>102,998</u>
Capital assets being depreciated:				
Buildings and improvements	601,478	-	-	601,478
Infrastructure	1,179,456	53,102	-	1,232,558
Equipment - Office, Fire and police department	556,124	2,656	-	558,780
Equipment - Municipal Aid Fund	15,900	-	-	15,900
Equipment - Parks and recreation	8,300	-	-	8,300
Total	<u>2,361,258</u>	<u>55,758</u>	<u>-</u>	<u>2,417,016</u>
Less: accumulated depreciation				
Buildings and improvements	(275,733)	(16,179)	-	(291,912)
Infrastructure	(1,091,834)	(8,312)	-	(1,100,146)
Equipment - Office, Fire and police department	(286,335)	(52,145)	-	(338,480)
Equipment - Municipal Aid Fund	(14,550)	(1,347)	-	(15,897)
Equipment - Parks and recreation	(4,717)	(430)	-	(5,147)
Total	<u>(1,673,169)</u>	<u>(78,413)</u>	<u>-</u>	<u>(1,751,582)</u>
Total depreciable capital assets, net	<u>688,089</u>	<u>(22,655)</u>	<u>-</u>	<u>665,434</u>
Governmental activities capital assets, net	<u>\$ 786,997</u>	<u>\$ (18,565)</u>	<u>\$ -</u>	<u>\$ 768,432</u>

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

General government	\$ 24,341
Public safety	39,179
Recreation	5,234
Streets	<u>9,659</u>
Total depreciation	<u>\$ 78,413</u>

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 94,108	\$ -	\$ -	\$ 94,108
Construction in process	-	-	-	-
Total	<u>94,108</u>	<u>-</u>	<u>-</u>	<u>94,108</u>
Capital assets being depreciated:				
Equipment	9,503	-	-	9,503
Sewer treatment plant and system	1,835,276	93,115	-	1,928,391
Vehicle	10,000	2,700	-	12,700
Total	<u>1,854,779</u>	<u>95,815</u>	<u>-</u>	<u>1,950,594</u>
Less: accumulated depreciation	<u>(1,171,073)</u>	<u>(54,689)</u>	<u>-</u>	<u>(1,225,762)</u>
Total depreciable capital assets, net	<u>683,706</u>	<u>41,126</u>	<u>-</u>	<u>724,832</u>
Business-type activities capital assets, net	<u>\$ 777,814</u>	<u>\$ 41,126</u>	<u>\$ -</u>	<u>\$ 818,940</u>

Capital Projects:

Subsequent to June 30, 2017, the City entered into a grant and loan agreement with the U.S.D.A Rural Development and with the U.S. Department of Housing and Urban Development (HUD) to fund a sewer line improvement project. The amounts of grants and loans for the project are as follows:

	<u>Grants</u>	<u>Loan</u>	<u>Total</u>
U.S.D.A. Rural Development	\$ 300,000	\$ 700,000	\$ 1,000,000
HUD	400,000	-	400,000
	<u>\$ 700,000</u>	<u>\$ 700,000</u>	<u>\$ 1,400,000</u>

**5. LONG-TERM OBLIGATIONS**

Long-term debt of the City consists of the following as of June 30, 2016:

	<u>Interest rate</u>	<u>Original Principal</u>	<u>June 30, 2016 Balance</u>
<b>Governmental activities:</b>			
City Hall Loan (matures March 2045)	3.920%	<u>\$ 240,000</u>	<u>\$ 234,677</u>
Total governmental activities		<u>\$ 240,000</u>	<u>\$ 234,677</u>
<b>Business-type activities:</b>			
1989 Series A Revenue Bonds	5.000%	436,050	242,000
1989 Series B Revenue Bonds	5.000%	1,675,000	129,000
2001 Series C Revenue Bonds	4.500%	<u>206,000</u>	<u>157,000</u>
Total business-type activities		<u>\$ 2,317,050</u>	<u>\$ 528,000</u>



**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

Annual debt service requirements to maturity are as follows:

	<b>Governmental activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,576	9,093	\$ 13,669
2018	4,687	8,914	13,601
2019	4,874	8,727	13,601
2020	5,068	8,533	13,601
2021	5,269	8,331	13,600
2022 - 2026	29,744	38,337	68,081
2027 - 2031	38,822	31,729	70,551
2032 - 2036	48,842	19,330	68,172
2037 - 2041	62,916	14,116	77,032
2042 - 2045	29,879	1,941	31,820
	<u>\$ 234,677</u>	<u>\$ 149,051</u>	<u>\$ 383,728</u>

	<b>Business-type activities</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,500	\$ 25,514	\$ 51,014
2018	26,500	24,261	50,761
2019	28,000	22,948	50,948
2020	29,000	21,573	50,573
2021	31,000	20,148	51,148
2022 - 2026	175,500	76,619	252,119
2027 - 2031	145,500	30,489	175,989
2032 - 2036	46,000	10,080	56,080
2037 - 2041	21,000	945	21,945
	<u>\$ 528,000</u>	<u>\$ 232,577</u>	<u>\$ 760,577</u>

Long-term liability activity for the year ending June 30, 2016 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due in one year</u>
<b>Governmental activities:</b>					
Equipment loan	\$ -	\$ -	\$ -	\$ -	\$ -
City Hall loan	238,962	-	(4,285)	234,677	4,576
Total governmental activities	<u>\$ 238,962</u>	<u>\$ -</u>	<u>\$ (4,285)</u>	<u>\$ 234,677</u>	<u>\$ 4,576</u>
<b>Business-type activities:</b>					
1989 Series A	\$ 255,000	\$ -	\$ (13,000)	\$ 242,000	\$ 14,000
1989 Series B	136,000	-	(7,000)	129,000	7,000
2001 Series C	161,000	-	(4,000)	157,000	4,500
Total business-type activities	<u>\$ 552,000</u>	<u>\$ -</u>	<u>\$ (24,000)</u>	<u>\$ 528,000</u>	<u>\$ 25,500</u>

# CITY OF CLARKSON, KENTUCKY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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### Bond Covenants

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

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

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

1. Bond and Interest Sinking Fund-There is to be a monthly deposit of an amount equal to one twelfth (1/12) of the next ensuing principal payment due and one sixth (1/6) of the next ensuing interest payment due. These funds are used to pay bond principal and interest obligations on an annual and semi-annual basis.
2. Depreciation Fund-This fund shall receive a monthly deposit of \$426 from the Revenue Fund after the above bond principal and interest transfers have been made. The deposits will continue as long as any bonds remain outstanding and unpaid and the balance in the depreciation account is less than \$51,120. The actual balance of the Depreciation fund at June 30, 2016 totaled \$9,504. Funds have been withdrawn from the fund to maintain the sewer system.

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

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

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

### Conduit Debt:

On June 24, 2015, the City issued Series 2016 (\$6,600,000) Kentucky Industrial Building Revenue Bonds to provide financial assistance to the private company for the acquisition and construction of facilities deemed to be in the public interest. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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**6. FUND BALANCES**

The following is a summary of the Governmental Funds fund balances of the City of Clarkson at the June 30, 2016:

Nonspendable - Inventory and prepaid items	\$ 1,100
Spendable:	
Restricted - Municipal Road Aid Fund	15,994
Assigned -Parks and Recreation	12,707
Unassigned	<u>174,101</u>
Total	<u>\$ 203,902</u>

**7. RETIREMENT PLAN**

COST-SHARING, MULTIPLE-EMPLOYER PLANS

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

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

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

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87
	Reduced retirement	Not available

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

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

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

**General information about the County Employees Retirement System Hazardous (“CERS Hazardous”)**

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	15 years service and 50 years old Or 20 years service and any age
	Reduced retirement	At least 5 years service and 55 years old
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old Or 25 years service and any age
	Reduced retirement	15 years service and 50 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 60 years old Or 25 years service and any age
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

\$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

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

At June 30, 2016, the City reported a liability for its proportionate share of the net pension liability for CERS as follows:

Governmental and Business-type activities:

	<u>CERS Non- Hazardous</u>		<u>CERS Hazardous</u>		<u>Total</u>
Net pension liability	\$ 162,133	\$	67,553	\$	229,686
Deferred outflows of resources – reported by CERS	29,633		14,069		43,702
Deferred inflow of resources – reported by CERS	4,228		15,674		19,902

The net pension liability for the plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability for CERS Nonhazardous was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the City's proportion of the plans were as follows:

	<u>CERS Non- Hazardous</u>	<u>CERS Hazardous</u>
Proportionate share of net pension liability	0.003771%	0.004401%
Decrease from prior year	0.000164%	0.001493%

For the year ended June 30, 2016, the City recognized pension expense of \$26,081. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

CERS (non-hazardous):

<u>Governmental and Business-type activities:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,347	\$ -
Changes of assumptions	16,349	-
Net difference between projected and actual earnings on pension plan investments	1,453	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	4,228
City contributions subsequent to the measurement date	<u>10,484</u>	<u>-</u>
	<u>\$ 29,633</u>	<u>\$ 4,228</u>

\$10,484 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 6,560
2018	6,560
2019	6,560
2020	3,106
2021	2,924

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CERS (hazardous):

<u>Governmental activities:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,467	\$ -
Changes of assumptions	5,838	-
Net difference between projected and actual earnings on pension plan investments	424	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	15,674
City contributions subsequent to the measurement date	<u>6,340</u>	<u>-</u>
	<u>\$ 14,069</u>	<u>\$ 15,674</u>

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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\$6,340 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	1,664
2018		1,664
2019		1,664
2020		1,664
2021		2,738

*Actuarial assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions for CERS (CERS Non-Hazardous and CERS Hazardous), applied to all periods included in the measurement:

Inflation	3.25%
Projected salary increases	4.00%
Investment rate of return, net of investment expenses and inflation	7.50%

For CERS, Mortality rates were based on 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 (setback 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.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**CITY OF CLARKSON, KENTUCKY**

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	100%	

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

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

	1% Decrease	Current Discount Rate (7.50%)	1% Increase
CERS Non-Hazardous (thousands)	\$ 5,488,878	\$ 4,299,525	\$ 3,280,950
City’s proportionate share of net pension liability – CERS-Non-Hazardous	\$ 206,983	\$ 162,133	\$ 123,723
CERS Hazardous (thousands)	\$ 1,964,987	\$ 1,535,106	\$ 1,178,939
City’s proportionate share of net pension liability – CERS Hazardous	\$ 86,470	\$ 67,553	\$ 51,879

*Pension plan fiduciary net position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.



**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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DEFERRED COMPENSATION PLAN

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

**8. 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.

**9. 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.

**10. TRANSFERS**

The following transfers were made during the year ending June 30, 2016:

<u>From fund</u>	<u>To fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt service	13,608
General Fund	Sewer Fund	Operating and capital expenses	92,882

**11. RELATED PARTY TRANSACTIONS**

The City contracted with an employee of the City for contracting and repair services related to the sewer system during fiscal year 2016. A total of \$37,635 was paid to the employee and employee's business during the year ended June 30, 2016. No amounts are due to or from the employee as of June 30, 2016.

**CITY OF CLARKSON, KENTUCKY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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**12. EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS**

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASBS No. 75 requires additional accounting and reporting for governments that provides other post-employment benefits (OPEB) other than pensions to its employees. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
2. The gross dollar amount of taxes abated during the period
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement is effective for periods beginning after June 15, 2016. 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, 2016

**13. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENTS**

During the current year, it was determined that certain prior year assets, liabilities, deferred outflows and deferred inflows were not properly accounted for and, therefore, the prior period has been adjusted in the current year financial statements. Also, the City changed its method for accounting for infrastructure from the modified approach to the depreciation method. As a result of the these changes, the following adjustments were made to net position as of June 30, 2015:

	Gvoernmental activities	Business-type activities	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Net position, as previously reported	\$ 470,343	\$ 272,148	\$ 742,491
Prior period adjustments:			
Infrastructure - cost	1,179,456	-	1,179,456
Infrastructure - accumulated depreciation	(1,091,834)		(1,091,834)
Net pension liability at 6/30/2015	18,766	(18,766)	-
Deferred outflows related to pension	(2,489)	2,489	-
Deferred inflows related to pension	2,095	(2,095)	-
	<u>          </u>	<u>          </u>	<u>          </u>
Net position of governmental activities, as restated	<u>\$ 576,337</u>	<u>\$ 253,776</u>	<u>\$ 830,113</u>

The above prior period adjustments had no effect on the governmental fund balances in the fund financial statements.

**14. SUBSEQUENT EVENTS**

Subsequent to June 30, 2017, the City entered into a loan to purchase a police vehicle for \$15,022 at an annual interest rate of 4.67%. The loan calls for monthly payments in the amount of \$847 and matures December 2021.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF CLARKSON, KENTUCKY**

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

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
<b>REVENUES</b>				
Property taxes	\$ 50,800	\$ 50,800	\$ 50,880	\$ 80
Utility taxes	40,000	40,000	43,061	3,061
Occupational taxes	135,000	135,000	157,618	22,618
Insurance premium tax	75,000	75,000	71,970	(3,030)
Motor vehicle tax	4,500	4,500	5,019	519
Licenses and permits	4,300	4,300	6,468	2,168
Grants and contributions	26,850	26,850	47,361	20,511
Charges for services	220,200	220,200	229,448	9,248
Administrative fees charged to sewer fund	48,000	48,000	48,000	-
Investment income	-	-	51	51
Other revenues	5,600	5,600	6,263	663
Total revenues	<u>610,250</u>	<u>610,250</u>	<u>666,139</u>	<u>55,889</u>
<b>EXPENDITURES</b>				
Current:				
General government	286,150	286,150	280,802	5,348
Public safety - police	48,100	48,100	59,725	(11,625)
Public safety - fire	49,550	49,550	37,593	11,957
Sanitation	83,200	83,200	55,872	27,328
Parks and recreation	106,500	106,500	80,645	25,855
Capital outlay	-	-	6,746	(6,746)
Total expenditures	<u>573,500</u>	<u>573,500</u>	<u>521,383</u>	<u>52,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,750</u>	<u>36,750</u>	<u>144,756</u>	<u>108,006</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(13,600)	(13,600)	(106,490)	(92,890)
Net other financing sources (uses)	<u>(13,600)</u>	<u>(13,600)</u>	<u>(106,490)</u>	<u>(92,890)</u>
Net change in fund balances	<u>\$ 23,150</u>	<u>\$ 23,150</u>	<u>38,266</u>	<u>\$ 15,116</u>
Fund balances - beginning of year			<u>149,642</u>	
Fund balances - end of year			<u>\$ 187,908</u>	

See independent auditor's report on required supplementary information

**CITY OF CLARKSON, KENTUCKY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET-TO-  
ACTUAL – MUNICIPAL AID FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Amended Budget	Actual	Favorable (Unfavorable) Variance
<b>REVENUES</b>				
Intergovernmental	\$ 20,000	\$ 20,000	\$ 18,139	\$ (1,861)
Investment income	-	50	14	(36)
Total revenues	<u>20,000</u>	<u>20,050</u>	<u>18,153</u>	<u>(1,897)</u>
<b>EXPENDITURES</b>				
Current:				
Streets	77,000	77,000	5,879	71,121
Sidewalks	-	-	-	-
Capital outlay	-	-	53,102	(53,102)
Total expenditures	<u>77,000</u>	<u>77,000</u>	<u>58,981</u>	<u>18,019</u>
Excess (deficiency) of revenues over (under) expenditures	(57,000)	(56,950)	(40,828)	16,122
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>\$ (57,000)</u>	<u>\$ (56,950)</u>	(40,828)	<u>\$ 16,122</u>
Fund balances - beginning of year			56,822	
Fund balances - end of year			<u>\$ 15,994</u>	

See independent auditor's report on required supplementary information

**CITY OF CLARKSON, KENTUCKY**

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

**FOR THE YEAR ENDED JUNE 30, 2016**

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**CERS - Non-Hazardous \***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 10,484	\$ 12,327	\$ 12,277
Contributions in relation to the contractually required contribution	<u>10,484</u>	<u>12,327</u>	<u>12,277</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 87,976	\$ 95,822	\$ 84,952
Contributions as a percentage of covered employee payroll	11.92%	12.86%	14.45%

**CERS - Hazardous \***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 6,340	\$ 6,943	\$ 10,657
Contributions in relation to the contractually required contribution	<u>6,340</u>	<u>6,943</u>	<u>10,657</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 29,786	\$ 20,236	\$ 26,633
Contributions as a percentage of covered employee payroll	21.29%	34.31%	40.01%

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

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

**CITY OF CLARKSON, KENTUCKY**

**SCHEDULE OF CONTRIBUTIONS - CERS**

**FOR THE YEAR ENDED JUNE 30, 2016**

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**CERS - Non-Hazardous \***

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.003771%	0.003935%
City's proportionate share of the net pension liability	\$ 162,133	\$ 127,663
City's covered-employee payroll	\$ 87,976	\$ 95,822
City's proportionate share of the net pension liability as a percentage of its covered payroll	184%	133%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

**CERS - Hazardous \***

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.004401%	0.005894%
City's proportionate share of the net pension liability	\$ 67,553	\$ 70,835
City's covered-employee payroll	\$ 29,786	\$ 20,236
City's proportionate share of the net pension liability as a percentage of its covered payroll	227%	350%
Plan fiduciary net position as a percentage of the total pension liability	57.52%	63.46%

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

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



# CITY OF CLARKSON, KENTUCKY

## NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016

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

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

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

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

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

**Changes of benefit terms:** The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

**Changes of assumptions:** The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

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



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Clarkson, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Clarkson, Kentucky's basic financial statements and have issued our report thereon dated September 11, 2017.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2016-001, 2016-002 and 2016-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses as findings 2016-004 and 2016-005 to be significant deficiencies.

## **Compliance and Other Matters**

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

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

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

## **Purpose of this Report**

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

*Stiles, Carter & Associates*

Bardstown, Kentucky  
September 11, 2017

# CITY OF CLARKSON, KENTUCKY

## SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2016

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### **Finding 2016-001 (Material Weakness)**

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

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

Cause: As is common in small organizations, the City has financial restraints 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 second CPA firm. In this instance, one CPA firm would be engaged to prepare the City's financial statements in accordance with accounting principles generally accepted in the United States and the other firm engaged to conduct the audit of the City's financial statements.

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

### **Finding 2016-002 (Material Weakness)**

Condition: During our audit, we noted that no reconciliation is being prepared for the occupational tax, insurance premium tax, sewer and garbage revenue billing software (United Systems) to the general ledger. This is a repeat finding from the prior year.

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

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

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

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

# CITY OF CLARKSON, KENTUCKY

## SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2016

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Management's Response: The City will implement the recommendation above in order to strengthen controls over the City's reconciliation process.

**Finding 2016-003  
(Material Weakness)**

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

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

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

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

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

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

Management's Response: Management will work to implement the above recommendations.

## CITY OF CLARKSON, KENTUCKY

### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2016

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#### **Finding 2016-004 (Significant Deficiency)**

Condition: As part of the audit we noted that the cash receipts for the Parks fund 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.

Management's Response: Management will work to implement the above recommendations.

#### **Finding 2016-005 (Significant Deficiency)**

Condition: As part of the audit we noted that the all checks are signed by the City Clerk or Mayor and dual signatures are not required on disbursements. This is a repeat finding from the prior year.

Criteria: Sound internal controls require adequate review and approval of significant disbursements.

Cause: The City does not have a policy to require dual signatures for disbursements.

Effect: Failure to implement a policy requiring dual signatures for disbursements over specified limits could result in unapproved disbursements.

Recommendation: In conjunction with finding 2016-003, we recommend the City establish a disbursement threshold in which all disbursements over a specific amount would require two signatures. This would allow additional oversight over significant disbursements.

Management's Response: Management will work to implement the above recommendations.

**CITY OF CLARKSON, KENTUCKY**

**SCHEDULE OF PRIOR YEAR FINDINGS  
JUNE 30, 2016**

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**Finding 2015-001**

Repeated as finding 2016-001.

**Finding 2015-002**

Repeated as finding 2016-002.

**Finding 2015-003**

Repeated as finding 2016-003.

**Finding 2015-004**

Repeated as finding 2016-004.

**Finding 2015-005**

Repeated as finding 2016-005.

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
CITY OF CLARKSON, KENTUCKY  
For the Year Ended June 30, 2016

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

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Mayor

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City Clerk