

**CITY OF CLARKSON,
KENTUCKY**

FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND INDEPENDENT
AUDITOR'S REPORT

JUNE 30, 2017

CITY OF CLARKSON, KENTUCKY

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CITY OF CLARKSON, KENTUCKY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clarkson, Kentucky (the "City") as of and for the year ended June 30, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the City adopted Governmental Accounting Standards Board 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*, Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement 77, *Tax Abatement Disclosures*, Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*, and Statement 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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.

Management has omitted the Management's Discussion and Analysis (MDA) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2018 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

June 6, 2018

CITY OF CLARKSON, KENTUCKY

STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 148,196	\$ 34,239	\$ 182,435
Receivables:			
Taxes, licenses, and fees	79,376	-	79,376
Other accounts receivable, net	12,081	16,645	28,726
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
Total current assets	<u>240,753</u>	<u>50,884</u>	<u>291,637</u>
Noncurrent assets:			
Restricted cash and cash equivalents	-	37,390	37,390
Non-depreciable capital assets	144,464	94,108	238,572
Depreciable capital assets, net	642,646	677,477	1,320,123
Total noncurrent assets	<u>787,110</u>	<u>808,975</u>	<u>1,596,085</u>
TOTAL ASSETS	<u>\$ 1,027,863</u>	<u>\$ 859,859</u>	<u>\$ 1,887,722</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	<u>\$ 60,494</u>	<u>\$ 19,335</u>	<u>\$ 79,829</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 9,257	\$ 1,646	\$ 10,903
Accrued liabilities	9,920	-	9,920
Customer deposits	-	25,393	25,393
Accrued interest payable	-	12,181	12,181
Loan payable, current	7,503	-	7,503
Bonds payable, current	-	26,500	26,500
Total current liabilities	<u>26,680</u>	<u>65,720</u>	<u>92,400</u>
Noncurrent liabilities:			
Compensated absences, long-term	4,048	-	4,048
Loan payable, long-term	235,969	-	235,969
Bonds payable, long-term	-	476,000	476,000
Net pension liability - CERS	198,934	85,677	284,611
Total noncurrent liabilities	<u>438,951</u>	<u>561,677</u>	<u>1,000,628</u>
TOTAL LIABILITIES	<u>\$ 465,631</u>	<u>\$ 627,397</u>	<u>\$ 1,093,028</u>
DEFERRED INFLOWS OF RESOURCES			
Pension related items	<u>\$ 14,119</u>	<u>\$ 2,218</u>	<u>\$ 16,337</u>
NET POSITION			
Net investment in capital assets	\$ 543,638	\$ 269,085	\$ 812,723
Restricted for:			
Debt service	-	26,853	26,853
Capital outlay	-	10,537	10,537
Municipal Aid Road Fund	18,718	-	18,718
Unrestricted	46,251	(56,896)	(10,645)
TOTAL NET POSITION	<u>\$ 608,607</u>	<u>\$ 249,579</u>	<u>\$ 858,186</u>

See accompanying notes to the financial statements.

CITY OF CLARKSON, KENTUCKY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

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		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 220,429	\$ 6,411	\$ 7,166	\$ -	\$ (206,852)	\$ -	\$ (206,852)
Public safety - police	74,981	195	4,000	-	(70,786)	-	(70,786)
Public safety - fire	89,890	-	58,266	-	(31,624)	-	(31,624)
Parks and recreation	80,962	49,207	250	-	(31,505)	-	(31,505)
Sanitation	84,656	144,402	-	-	59,746	-	59,746
Streets	47,865	-	42,990	-	(4,875)	-	(4,875)
Interest on long-term debt	10,691	-	-	-	(10,691)	-	(10,691)
Total governmental activities	609,474	200,215	112,672	-	(296,587)	-	(296,587)
Business-type activities:							
Sewer utilities	287,273	186,905	-	-	-	(100,368)	(100,368)
Total primary government	\$ 896,747	\$ 387,120	\$ 112,672	\$ -	(296,587)	(100,368)	(396,955)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					58,890	-	58,890
Motor vehicle taxes					4,730	-	4,730
Utility taxes					37,602	-	37,602
Occupational taxes					163,002	-	163,002
Insurance premium tax					70,642	-	70,642
Administrative charges from Sewer Fund					48,000	-	48,000
Licenses and permits					3,118	-	3,118
Investment income					81	-	81
Miscellaneous					12,027	-	12,027
Transfers					(40,870)	40,870	-
Total general revenues					357,222	40,870	398,092
Change in Net Position					60,635	(59,498)	1,137
Net Position, Beginning of Year (as previously reported)					547,972	309,077	857,049
Net Position, End of Year					\$ 608,607	\$ 249,579	\$ 858,186

See accompanying notes to the financial statements.

CITY OF CLARKSON, KENTUCKY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 130,617	\$ 17,580	\$ 148,197
Taxes receivable	77,738	-	77,738
Intergovernmental receivables	-	1,637	1,637
Other accounts receivable, net	12,081	-	12,081
Inventory	1,000	-	1,000
Prepaid expenses	100	-	100
	<u>221,536</u>	<u>19,217</u>	<u>240,753</u>
Total current assets	<u>\$ 221,536</u>	<u>\$ 19,217</u>	<u>\$ 240,753</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 8,758	\$ 499	\$ 9,257
Accrued liabilities	9,920	-	9,920
Total liabilities	<u>18,678</u>	<u>499</u>	<u>19,177</u>
 FUND BALANCES			
Nonspendable	1,100	-	1,100
Restricted	-	18,718	18,718
Assigned	16,587	-	16,587
Unassigned	185,171	-	185,171
Total fund balances	<u>202,858</u>	<u>18,718</u>	<u>221,576</u>
Total liabilities and fund balances	<u>\$ 221,536</u>	<u>\$ 19,217</u>	<u>\$ 240,753</u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances of governmental funds		\$ 221,576
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	\$ 2,617,641	
Accumulated depreciation	<u>(1,830,531)</u>	787,110
Deferred outflows of resources and deferred inflows of resources related to the City's proportionate share of CERS:		
Deferred outflows of resources - pension related	60,494	
Deferred inflows of resources - pension related	<u>(14,119)</u>	46,375
Long-term liabilities, including loan payable, are not due and payable in the current period; therefore, they are not reported in governmental funds:		
Compensated absences	(4,048)	
Net pension liability	(198,934)	
Loan payable	<u>(243,472)</u>	<u>(446,454)</u>
Net position of governmental activities		<u>\$ 608,607</u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 58,890	\$ -	\$ 58,890
Utility taxes	37,602	-	37,602
Occupational taxes	163,002	-	163,002
Insurance premium tax	70,642	-	70,642
Motor vehicle tax	4,730	-	4,730
Licenses and permits	3,118	-	3,118
Intergovernmental	-	17,618	17,618
Grants and contributions	95,054	-	95,054
Charges for services	200,215	-	200,215
Administrative fees charged to sewer fund	48,000	-	48,000
Investment income	75	7	82
Other revenues	12,028	-	12,028
Total revenues	<u>693,356</u>	<u>17,625</u>	<u>710,981</u>
EXPENDITURES			
Current:			
General government	230,624	-	230,624
Public safety - police	72,090	-	72,090
Public safety - fire	48,627	-	48,627
Sanitation	84,305	-	84,305
Parks and recreation	79,766	-	79,766
Streets	23,990	14,901	38,891
Capital outlay	97,627	-	97,627
Debt service - principal	-	4,907	4,907
Debt service - interest	-	10,691	10,691
Total expenditures	<u>637,029</u>	<u>30,499</u>	<u>667,528</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,327</u>	<u>(12,874)</u>	<u>43,453</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt	15,091	-	15,091
Transfers in	-	15,598	15,598
Transfers out	<u>(56,468)</u>	<u>-</u>	<u>(56,468)</u>
Net other financing sources (uses)	<u>(41,377)</u>	<u>15,598</u>	<u>(25,779)</u>
Net change in fund balances	14,950	2,724	17,674
Fund balances - beginning of year	<u>187,908</u>	<u>15,994</u>	<u>203,902</u>
Fund balances - end of year	<u>\$ 202,858</u>	<u>\$ 18,718</u>	<u>\$ 221,576</u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Net change in fund balances - governmental funds \$ 17,674

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital outlays are reported as an expenditure in the fund financial statements but are capitalized in the government-wide financial statements	\$ 97,627	
Depreciation is reported in the government-wide financial statements	<u>(78,949)</u>	18,678

Proceeds from the issuance of long-term debt provide current financial resources and are reported in the fund financial statements but they are present as liabilities in the statement of net position	(15,091)
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Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount Principal payments on long-term debt	6,296
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Some items reported in the Statement of Activities do not involve current
financial resources and, therefore, are not reported as expenditures in the
governmental funds.

These activities include:

Pension expense related to changes in the net pension liability and the net changes in deferred inflows and deferred outflows related to CERS	33,774	
Changes in compensated absences	<u>(696)</u>	<u>33,078</u>

Change in net position of governmental activities	<u><u>\$ 60,635</u></u>
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CITY OF CLARKSON, KENTUCKY

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2017

	Sewer Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 34,239
Accounts receivable, net	16,645
Total current assets	<u>50,884</u>
Noncurrent assets:	
Restricted cash and cash equivalents	37,390
Non-depreciable capital assets	94,108
Depreciable capital assets, net	677,477
Total noncurrent assets	<u>808,975</u>
TOTAL ASSETS	<u><u>\$ 859,859</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	<u><u>\$ 19,335</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,646
Customer deposits	25,393
Accrued interest payable	12,181
Bonds payable, current	26,500
Total current liabilities	<u>65,720</u>
Noncurrent liabilities:	
Bonds payable, long-term	476,000
Net pension liability	85,677
Total noncurrent liabilities	<u>561,677</u>
TOTAL LIABILITIES	<u><u>\$ 627,397</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	<u><u>\$ 2,218</u></u>
NET POSITION	
Net investment in capital assets	\$ 269,085
Restricted for:	
Debt service	26,853
Capital outlay	10,537
Unrestricted	(56,896)
TOTAL NET POSITION	<u><u>\$ 249,579</u></u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>Sewer Fund</u>
OPERATING REVENUES	
Charges for services, net of refunds of \$9,237	\$ 186,905
TOTAL OPERATING REVENUES	<u>186,905</u>
OPERATING EXPENSES:	
Administration fees paid to general fund	48,000
Payroll and related benefits and taxes	89,878
Repairs and maintenance	18,892
Insurance	6,428
Utilities	17,362
General administrative, supplies, and services	22,690
Depreciation expense	59,032
TOTAL OPERATING EXPENSES	<u>262,282</u>
OPERATING INCOME (LOSS)	<u>(75,377)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest expense	<u>(24,991)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(24,991)</u>
INCOME (LOSS) BEFORE TRANSFERS	(100,368)
Transfers in	<u>40,870</u>
CHANGE IN NET POSITION	(59,498)
NET POSITION, beginning of year	<u>309,077</u>
NET POSITION, end of year	<u>\$ 249,579</u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2017

	Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 185,639
Cash payments to suppliers for goods and services	(112,126)
Cash payments to employees for services	(40,870)
Net cash provided by operating activities	<u>32,643</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Net transfer in from general fund	<u>40,870</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(11,677)
Principal paid on long-term debt	(25,500)
Interest paid on long-term debt	(25,617)
Net cash used by capital and related financing activities	<u>(62,794)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,719
CASH AND CASH EQUIVALENTS, beginning of year	<u>60,910</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 71,629</u>
Classified as:	
Current assets - cash and cash equivalents	34,239
Restricted assets - cash and cash equivalents	<u>37,390</u>
Total	<u>\$ 71,629</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (75,377)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	59,032
Change in assets, liabilities, deferred inflows and deferred outflows:	
(Increase) decrease in accounts receivable	(3,231)
(Increase) decrease in deferred outflows - pension	(15,097)
Increase (decrease) in accounts payable	1,246
Increase (decrease) in deferred revenues	1,965
Increase (decrease) in deferred inflows - pension	1,613
Increase (decrease) in net pension liability	<u>62,492</u>
Net cash provided by operating activities	<u>\$ 32,643</u>
SCHEDULE OF NON-CASH TRANSACTIONS:	
CERS pensions	<u>\$ 49,008</u>

See accompanying notes to financial statements.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

C. Basis of Accounting and Measurement Focus

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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Government-wide Financial Statements

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

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

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

Governmental Fund Financial Statements

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

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

The City reports the following major governmental fund:

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

The City reports the following non-major funds:

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

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

Proprietary Fund Financial Statements

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

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

The City reports the following major proprietary fund:

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

D. Cash and Cash Equivalents

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

E. Restricted Cash and Cash Equivalents

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

CITY OF CLARKSON, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

F. Taxes Receivable, Tax Calendar, and Accounts Receivable

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

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

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

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

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

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

G. Prepaid Expenses

Payments made that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventories

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

I. Capital Assets

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

CITY OF CLARKSON, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

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

J. Unearned Revenue

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Compensated Absences

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

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

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. Accumulated vacation and sick leave liabilities at June 30, 2017 are determined on the basis of current salary rates and include salary related payments.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017 totals \$9,670.

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, 2017

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 charges for services.

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, 2017, to finance the General Fund operations were \$0.08700 per \$100 valuation for real property, \$0.0870 per \$100 valuation for business personal property and \$0.0870 per \$100 valuation for motor vehicles.

R. Interfund Balances

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

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

S. Interfund Activity

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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

T. Budgetary Process

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

U. Use of Estimates

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

V. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of 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.

W. Recently Issued And Adopted Accounting Principles

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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact 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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the City's financial statements.

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the fiscal year ended June 30, 2017 and additional disclosures have been included in the financial statements.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the City's financial statements.

In January 19016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the City's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the City's financial statements.

Recently Issued Accounting Principles

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

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

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. 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 May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. 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 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. CASH AND CASH EQUIVALENTS

As of June 30, 2017, the City's cash and cash equivalents balances include deposits held in checking accounts and savings accounts, and certificate of deposits. The carrying value of cash and equivalents for the governmental activity accounts and the business-type activity accounts totaled \$148,196 and \$71,629, respectively.

Custodial Credit Risk: For deposits, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no formal policy on custodial credit risk. At June 30, 2017, no deposits were exposed to custodial credit risk.

3. RECEIVABLES

As of June 30, 2017, the City's receivables consist of the following:

	Governmental Activities	Business-type Activities
	<u> </u>	<u> </u>
Occupational taxes	\$ 43,769	\$ -
Insurance premium taxes	22,191	-
Utility franchise tax	8,442	-
Property taxes	406	-
Municipal Aid fund	1,637	-
Sanitation accounts receivable	23,769	-
Other	2,931	-
Sewer accounts receivable	-	25,780
Allowance for doubtful accounts - sanitation	(11,688)	-
Allowance for doubtful accounts - sewer	-	(9,135)
	<u> </u>	<u> </u>
Total	<u>\$ 91,457</u>	<u>\$ 16,645</u>

4. TRANSFERS

The following transfers were made during the year ending June 30, 2017:

<u>From fund</u>	<u>To fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Debt service	\$ 15,598
General Fund	Sewer Fund	Operating and personnel expenses	40,870

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

5. CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2017 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land, general government	\$ 20,908	\$ -	\$ -	\$ 20,908
Construction in process	4,090	41,466	-	45,556
Land, recreation	78,000	-	-	78,000
Total	<u>102,998</u>	<u>41,466</u>	<u>-</u>	<u>144,464</u>
Capital assets being depreciated:				
Buildings and improvements	601,478	-	-	601,478
Infrastructure	1,232,558	-	-	1,232,558
Equipment - Office, Fire and police department	558,780	56,161	-	614,941
Equipment - Municipal Aid Fund	15,900	-	-	15,900
Equipment - Parks and recreation	8,300	-	-	8,300
Total	<u>2,417,016</u>	<u>56,161</u>	<u>-</u>	<u>2,473,177</u>
Less: accumulated depreciation				
Buildings and improvements	(291,912)	(12,141)		(304,053)
Infrastructure	(1,100,146)	(8,975)		(1,109,121)
Equipment - Office, Fire and police department	(338,480)	(57,403)	-	(395,883)
Equipment - Municipal Aid Fund	(15,897)	-	-	(15,897)
Equipment - Parks and recreation	(5,147)	(430)	-	(5,577)
Total	<u>(1,751,582)</u>	<u>(78,949)</u>	<u>-</u>	<u>(1,830,531)</u>
Total depreciable capital assets, net	<u>665,434</u>	<u>(22,788)</u>	<u>-</u>	<u>642,646</u>
Governmental activities capital assets, net	<u>\$ 768,432</u>	<u>\$ 18,678</u>	<u>\$ -</u>	<u>\$ 787,110</u>

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

General government	\$ 12,724
Public safety	44,154
Recreation	1,196
Sanitation	11,900
Streets	8,975
Total depreciation	<u>\$ 78,949</u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 94,108	\$ -	\$ -	\$ 94,108
Total	<u>94,108</u>	<u>-</u>	<u>-</u>	<u>94,108</u>
Capital assets being depreciated:				
Equipment	9,503	2,000	-	11,503
Sewer treatment plant and system	1,928,391	9,677	-	1,938,068
Vehicle	12,700	-	-	12,700
Total	<u>1,950,594</u>	<u>11,677</u>	<u>-</u>	<u>1,962,271</u>
Less: accumulated depreciation	<u>(1,225,762)</u>	<u>(59,032)</u>	<u>-</u>	<u>(1,284,794)</u>
Total depreciable capital assets, net	<u>724,832</u>	<u>(47,355)</u>	<u>-</u>	<u>677,477</u>
Business-type activities capital assets, net	<u>\$ 818,940</u>	<u>\$ (47,355)</u>	<u>\$ -</u>	<u>\$ 771,585</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>

6. LONG-TERM OBLIGATIONS

Long-term debt of the City consists of the following as of June 30, 2017:

	<u>Interest rate</u>	<u>Original Principal</u>	<u>June 30, 2017 Balance</u>
Governmental activities:			
Police vehicle loan	4.490%	\$ 15,091	13,702
City Hall Loan (matures March 2043)	3.920%	240,000	229,770
Total governmental activities		<u>\$ 255,091</u>	<u>\$ 243,472</u>
Business-type activities:			
1989 Series A Revenue Bonds	5.000%	436,050	228,000
1989 Series B Revenue Bonds	5.000%	1,675,000	122,000
2001 Series C Revenue Bonds	4.500%	206,000	152,500
Total business-type activities		<u>\$ 2,317,050</u>	<u>\$ 502,500</u>

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Annual debt service requirements to maturity are as follows:

	Governmental activities		
	Principal	Interest	Total
2018	\$ 7,503	9,484	\$ 16,987
2019	7,819	9,168	16,987
2020	8,148	8,839	16,987
2021	8,490	8,496	16,986
2022	7,119	8,156	15,275
2023 - 2027	31,154	37,150	68,304
2028 - 2032	40,954	24,911	65,865
2033 - 2037	51,160	22,994	74,154
2038 - 2042	66,153	11,598	77,751
2043	14,972	679	15,651
	<u>\$ 243,472</u>	<u>\$ 141,475</u>	<u>\$ 384,947</u>

	Business-type activities		
	Principal	Interest	Total
2017	\$ 26,500	\$ 24,261	\$ 50,761
2018	28,000	22,948	50,948
2019	29,000	21,573	50,573
2020	31,000	20,148	51,148
2021	31,500	18,611	50,111
2022 - 2026	184,500	67,969	252,469
2027 - 2031	113,500	23,352	136,852
2032 - 2036	48,000	7,965	55,965
2037 - 2041	10,500	236	10,736
	<u>\$ 502,500</u>	<u>\$ 207,063</u>	<u>\$ 709,563</u>

Long-term liability activity for the year ending June 30, 2017 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due in one year
Governmental activities:					
Police vehicle loan	\$ -	\$ 15,091	\$ (1,389)	\$ 13,702	\$ 2,816
City Hall loan	234,677	-	(4,907)	229,770	4,687
Compensated absences	3,351	4,048	(3,351)	4,048	810
Total governmental activities	<u>\$ 238,028</u>	<u>\$ 19,139</u>	<u>\$ (9,647)</u>	<u>\$ 247,520</u>	<u>\$ 8,313</u>
Business-type activities:					
1989 Series A	\$ 242,000	\$ -	\$ (14,000)	\$ 228,000	\$ 14,000
1989 Series B	129,000	-	(7,000)	122,000	8,000
2001 Series C	157,000	-	(4,500)	152,500	4,500
Total business-type activities	<u>\$ 528,000</u>	<u>\$ -</u>	<u>\$ (25,500)</u>	<u>\$ 502,500</u>	<u>\$ 26,500</u>

During 2017, the City entered into a \$15,091 loan with a local bank to purchase a police vehicle. The loan agreement calls for quarterly payment of principal and interest of \$847 at a rate of 4.49%. The loan matures December 2021.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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, 2017 totaled \$10,537. Funds have been withdrawn from the fund to maintain the sewer system.

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

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

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

Conduit Debt:

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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

7. FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2017, the City had \$1,100 in nonspendable fund balance related to prepaid expenses and inventory.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2017, the City had \$18,718 restricted for the municipal aid fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the City is the City Commission. The Commission must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. There were no committed fund balances at June 30, 2017.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. There were no amounts assigned related to encumbrances at June 30, 2017. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. At June 30, 2017, the City had \$16,587 assigned for parks.

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

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

8. RETIREMENT PLAN

COST-SHARING, MULTIPLE-EMPLOYER PLANS

Plan Descriptions, Contribution Information, and Funding Policies:

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

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

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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date Unreduced retirement Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation date Unreduced retirement Reduced retirement	After December 31, 2013 At least 5 years service and 65 years old Or age 57+ and the sum of service years plus age equal 87 Not available

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

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

Required Contribution

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

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

At June 30, 2017, 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	\$ 181,699	\$	102,912	\$	284,611
Deferred outflows of resources – reported by CERS	37,984		38,823		76,807
Deferred inflow of resources – reported by CERS	4,703		11,634		16,337

The net pension liability for the plan was measured as of June 30, 2016, 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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, 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	0.003690%	0.005997%
Increase / (decrease) from prior year	(0.000081%)	0.001596%

For the year ended June 30, 2017, the City recognized pension expense of \$26,081. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	\$ 793	\$ -
Changes of assumptions	9,625	-
Net difference between projected and actual earnings on pension plan investments	17,082	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	4,703
City contributions subsequent to the measurement date	<u>13,506</u>	<u>-</u>
	\$ <u>41,006</u>	\$ <u>4,703</u>

\$13,506 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:

2018	\$	8,852
2019		5,470
2020		5,292
2021		3,183

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, 2017

CERS (hazardous):

<u>Governmental activities:</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,484	\$ -
Changes of assumptions	5,906	-
Net difference between projected and actual earnings on pension plan investments	8,682	-
Changes in proportion and differences between City contributions and proportionate share of contributions	14,988	11,634
City contributions subsequent to the measurement date	<u>7,763</u>	<u>-</u>
	<u>\$ 38,823</u>	<u>\$ 11,634</u>

\$7,763 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:

2018	\$	5,193
2019		5,191
2020		6,655
2021		2,387

Actuarial assumptions – The total pension liability in the June 30, 2016 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

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
	<u>100%</u>	

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:

	<u>1% Decrease</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase</u>
City’s proportionate share of net pension liability – CERS-Non-Hazardous	\$ 226,405	\$ 181,699	\$ 143,345
City’s proportionate share of net pension liability – CERS Hazardous	\$ 129,279	\$ 102,912	\$ 81,151

CITY OF CLARKSON, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Pension Plan Fiduciary Net Position

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

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

The City is required to contribute at an actuarially determined rate. As of June 30, 2017, 2016, and 2015, the City's required contribution rate (CERS non-hazardous) was 4.73%, 4.64%, and 4.92%, respectively, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the City were \$4,579, \$4,605 and \$4,737 for the years ended June 30, 2017, 2016, and 2015, respectively.

As of June 30, 2017, 2016, and 2015, the City's required contribution rate (CERS hazardous) was 9.35%, 12.69%, and 13.58%, respectively, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the City were \$726, \$881 and \$1,447 for the years ended June 30, 2017, 2016, and 2015, respectively.

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.

CITY OF CLARKSON, KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

9. RISK MANAGEMENT

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

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

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

10. CONTINGENCIES

Litigation

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

Federal grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

11. RELATED PARTY TRANSACTIONS

The City purchased equipment from an employee of the City for use at the sewer plant totaling \$2,000 for the year ending June 30, 2017. No amounts are due to or from the employee as of June 30, 2017.

12. TAX ABATEMENT AGREEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CLARKSON, KENTUCKY

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

YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual
REVENUES			
Property taxes	\$ 65,000	\$ 65,000	\$ 58,890
Utility taxes	35,000	35,000	37,602
Occupational taxes	132,000	132,000	163,002
Insurance premium tax	100,000	100,000	70,642
Motor vehicle tax	5,000	5,000	4,730
Licenses and permits	3,500	3,500	3,118
Intergovernmental	-	-	-
Grants and contributions	59,500	59,500	95,054
Charges for services	210,000	210,000	200,215
Administrative fees charged to sewer fund	48,000	48,000	48,000
Investment income	-	-	75
Other revenues	8,700	8,700	12,028
Total revenues	<u>666,700</u>	<u>666,700</u>	<u>693,356</u>
EXPENDITURES			
Current:			
General government	349,400	349,400	230,624
Public safety - police	82,386	82,386	72,090
Public safety - fire	50,500	50,500	48,627
Sanitation	102,350	102,350	84,305
Parks and recreation	33,000	33,000	79,766
Streets	-	-	23,990
Capital outlay	-	-	97,627
Total expenditures	<u>617,636</u>	<u>617,636</u>	<u>637,029</u>
Excess (deficiency) of revenues over (under) expenditures	<u>49,064</u>	<u>49,064</u>	<u>56,327</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of debt	-	-	15,091
Transfers out	(24,000)	(24,000)	(56,468)
Net other financing sources (uses)	<u>(24,000)</u>	<u>(24,000)</u>	<u>(41,377)</u>
Net change in fund balances	<u>\$ 25,064</u>	<u>\$ 25,064</u>	<u>14,950</u>
Fund balances - beginning of year			<u>187,908</u>
Fund balances - end of year			<u>\$ 202,858</u>

CITY OF CLARKSON, KENTUCKY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY – CERS

YEAR ENDED JUNE 30, 2017

CERS - Non-Hazardous *

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

CERS - Hazardous *

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

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

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

CITY OF CLARKSON, KENTUCKY
SCHEDULE OF CONTRIBUTIONS - CERS
YEAR ENDED JUNE 30, 2017

CERS - Non-Hazardous *

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

CERS - Hazardous *

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

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

CITY OF CLARKSON, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017

Notes to Budgetary Schedules:

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

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

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

Notes to Pension Schedules:

Changes of benefit terms: There were no changes in benefit terms.

Changes of assumptions: There were no changes in assumptions.

SUPPLEMENTARY INFORMATION

CITY OF CLARKSON, KENTUCKY

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2017

	<u>Municipal Aid Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 17,580	\$ -	\$ 17,580
Intergovernmental receivables	<u>1,637</u>	<u>-</u>	<u>1,637</u>
Total current assets	<u>\$ 19,217</u>	<u>\$ -</u>	<u>\$ 19,217</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 499	\$ -	\$ 499
Accrued liabilities	-	-	-
Total liabilities	<u>499</u>	<u>-</u>	<u>499</u>
 FUND BALANCES			
Restricted	<u>18,718</u>	<u>-</u>	<u>18,718</u>
Total fund balances	<u>18,718</u>	<u>-</u>	<u>18,718</u>
Total liabilities and fund balances	<u>\$ 19,217</u>	<u>\$ -</u>	<u>\$ 19,217</u>

CITY OF CLARKSON, KENTUCKY

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

FOR THE YEAR ENDED JUNE 30, 2017

	Municipal Aid Fund	Debt Service Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 17,618	\$ -	\$ 17,618
Investment income	7	-	7
Total revenues	<u>17,625</u>	<u>-</u>	<u>17,625</u>
EXPENDITURES			
Current:			
Streets	14,901	-	14,901
Debt service - principal	-	4,907	4,907
Debt service - interest	-	10,691	10,691
Total expenditures	<u>14,901</u>	<u>15,598</u>	<u>30,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,724</u>	<u>(15,598)</u>	<u>(12,874)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	15,598	15,598
Net other financing sources (uses)	<u>-</u>	<u>15,598</u>	<u>15,598</u>
Net change in fund balances	2,724	-	2,724
Fund balances - beginning of year	15,994	-	15,994
Fund balances - end of year	<u>\$ 18,718</u>	<u>\$ -</u>	<u>\$ 18,718</u>



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

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, 2017, 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 June 6, 2018.

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 2017-001, 2017-002 and 2017-003 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 2017-004 and 2017-005 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 and other matters that are 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

June 6, 2018

CITY OF CLARKSON, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2017

Finding 2017-001 (Material Weakness)

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

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

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

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

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

Views of Responsible Officials: 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 2017-002 (Material Weakness)

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

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

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

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

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

CITY OF CLARKSON, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2017

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

Finding 2017-003 (Material Weakness)

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

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

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

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

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

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

Views of Responsible Officials: Management will work to implement the above recommendations.

CITY OF CLARKSON, KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2017

Finding 2017-004 (Significant Deficiency)

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

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

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

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

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

Views of Responsible Officials: Management will work to implement the above recommendations.

Finding 2017-005 (Significant Deficiency)

Condition: As part of the audit we noted that 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 2017-003, 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.

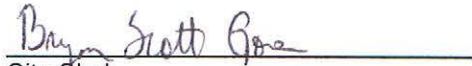
Views of Responsible Officials: Management will work to implement the above recommendations.

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CITY OF CLARKSON, KENTUCKY
For the Year Ended June 30, 2017

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



Mayor



City Clerk