

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

The government reports the following major funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

State Street Aid Fund - To account for the receipt and usage of the City's share of State gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

Sanitation Fund - To account for the revenues and expenditures of the City's Sanitation Department.

Drug Fund - To account for the police department's drug enforcement activities.

The government reports the following major proprietary funds:

The Utility Funds are used to account for water, sewer and natural gas operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments- in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or applicants for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources. 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 various utility funds are charges to customers for sales and services. The Utility Fund also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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 non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted funds are used the City uses committed, assigned then unassigned funds.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of savings accounts, certificates of deposit with original maturities three months or less and amounts held by the State Local Government Investment Pool.

Receivables and Payables

Activity between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as either due from/ due to other funds (i.e. the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resources. All trade receivables are shown net of an allowance for uncollectible, if applicable.

Property Tax

The City's property tax is levied each November 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of appraised market value:

Public Utility Property	55%
Industrial and Commercial Property	
- Real	40%
- Personal	30%
Farm and Residential Property	25%

Taxes were levied at a rate of \$1.0000 per \$100 of assessed valuation for the fiscal year.

Payments may be made during the period from November 1 through March 31. Current tax collections of \$148,093 for the fiscal year ended June 30, 2018 were approximately 92 percent of the tax levy.

Delinquent taxes are turned over to the City Attorney for collection as required by the City Municipal Code.

Restricted Assets

Certain proceeds of the Enterprise Fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on their respective balance sheets because they are maintained in separate bank accounts and their use is either limited by applicable bond covenants or represent proceeds from bond issues that are restricted for use in construction.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant and equipment, and certain improvements other than buildings, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of \$5,000 and an estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated useful life in excess of three years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Infrastructure	40-50 years
Buildings	10-50 years
Utility Plant in Service	10-50 years
Furniture and Equipment	5-10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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. The government has two items (pension and OPEB) that qualify for reporting in this category.

In addition to liabilities, the Statement of Net 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 items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes, which do not meet the availability criteria in governmental funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the City has two items (pension related and OPEB related) that qualifies for reporting in this category.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgets are adopted and approved by Council vote on an annual basis for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations by department only. The Mayor is authorized to transfer budget amounts between line items within each department; however, any revisions that alter the total appropriations of any fund must be approved by the City Council.
- c. The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

During the year the City exceeded the following department al budgets:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Police department	383,356	411,225	27,869
Sanitation fund	251,481	255,675	4,194

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds and are presented in the accompanying financial statements as other assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Fund Balance

The City implemented GASB 54 which addresses issues related to how fund balances are reported. Fund balances are now reported in the following manner:

Nonspendable fund balances – amounts that are not in a spendable form, Restricted fund balance – amounts constrained to specific purposes by their providers, provisions, or by enabling legislation, Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint, Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority, Unassigned fund balance – amounts that are available for any purpose; these amounts are reported only in the general fund.

Board approval (via ordinance) is required to establish, modify or rescind a fund balance requirement. Only by Board approval can fund balance amounts be classified as committed or assigned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial instruments that potentially subject the City to significant concentrations of credit risk consist principally of cash and accounts receivable. The City places its cash with federally-insured financial institutions, institutions participating in the State collateral pool. With respect to accounts receivable, credit risk is dispersed across a large number of customers concentrated within one area of service.

Inventory

Inventory of the Utility Fund is valued at cost, using the first in first out method. Inventory of all the governmental funds consists of expendable supplies held for consumption and are recorded at cost under the consumption method.

Compensated Absences

The City has accrued a liability for unused sick and vacation pay which is earned, but not taken by City employees.

	July 1, <u>2017</u>	Addi- <u>tions</u>	Retire- <u>ments</u>	June 30, <u>2018</u>
Governmental activities	<u>33,257</u>	<u>180</u>	<u>-</u>	<u>33,437</u>
Business-type activities	<u>13,657</u>	<u>156</u>	<u>-</u>	<u>13,813</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies, Continued

Pension

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 Clifton's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Clifton's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Other Post-Employment Benefit Plan- (OPEB)

Plan description. The City provides certain retiree health insurance benefits in a single employer defined benefit OPEB Plan through the LGIP which is administered by the State of Tennessee. All employees covered by the LGIP and hired prior to July 1, 2015 are covered by the OPEB Plan. According to State law in effect on the measurement date, employees first hired on or after July 1, 2015 are not eligible to continue health insurance coverage under the OPEB Plan after retiring. Any changes to the law will be recognized in future measurements. For eligible employees, some employers provide a direct subsidy toward the premium for certain employees; all employers provide an implicit subsidy; and the retiree pays any balance of the required premium remaining.

Funding policy. There are no assets or trust fund accumulating to pre-fund the OPEB obligation. The funding policy is to pay the OPEB obligation as it comes due each month on a pay-as-you-go basis. The total premium rate structure required for LGIP coverage is established by and may be amended by the Benefits Administration unit of the State and the State Insurance Committee. The local employer sets its own level of subsidy for the designated classification of members.

Eligibility. Eligibility to commence OPEB coverage is the same as eligibility for retirement under the Tennessee Consolidated Retirement System (TCRS), with the added conditions of (a) having being at least 10 years of employment with the employer and three continuous years of insurance coverage in the LGIP immediately prior to final termination for retirement (or age 55 with at least 20 years of such employment if only one year of such coverage) and (b) receiving a monthly pension from TCRS. Additional rules apply for OPEB coverage for TCRS-approved disabilities. Alternative conditions are made for any locally sponsored public safety retirement plan or utility board member.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(2) Cash and Cash Equivalents

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During the year, the City invested funds that were not immediately needed in certificates of deposits, savings accounts and investments in the State of Tennessee Local Government Investment Pool. The City has deposit policies to minimize custodial credit risks. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the city. The City's deposits with financial institutions are fully insured or collateralized by securities held in the government's name. Additionally, the deposit accounts are covered by the Federal Depository Insurance Coverage (FDIC).

The City's component unit's deposits with financial institutions are fully insured or collateralized by securities held in the government's name.

(3) Accounts Receivable

Accounts receivable at yearend, consist of the following:

<u>Fund</u>	<u>Other Government</u>	<u>Property Taxes</u>	<u>Customer Accounts</u>	<u>Total</u>
General Fund	\$ 43,728	177,251	-	220,979
Special Revenue Fund	8,144	-	12,413	20,557
Enterprise Fund	-	-	211,132	211,132
Less allowance for doubtful accounts	-	-	(2,820)	(2,820)
Total	\$ <u>51,872</u>	<u>177,251</u>	<u>220,725</u>	<u>449,848</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(4) Capital Assets

Primary Government:

A summary of changes in general capital assets as presented in the governmental activities column of the government-wide financial statement is as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
Land, buildings and improvements	\$ 2,063,481	49,883	90,000	2,023,364
Equipment	<u>677,226</u>	<u>34,204</u>	<u>39,822</u>	<u>671,608</u>
Total	\$ <u>2,740,707</u>	<u>84,087</u>	<u>129,822</u>	<u>2,694,972</u>
Less Accumulated depreciation	<u>(970,693)</u>			<u>(1,022,148)</u>
Net capital assets in service	\$ <u>1,770,014</u>			<u>1,672,824</u>

All assets except land valued at \$193,000 are being depreciated.

Depreciation expense was charged to functions/programs of the primary government as follows:

General Fund:

General government administration	\$ 31,090
Police department	14,907
Fire department	16,835
Highways and Streets	25,511
Parks	<u>2,934</u>
Total	<u>91,277</u>

Component Unit:

A summary of changes in capital assets by asset types follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
Land, buildings and improvements	\$ 2,061,873	-	-	2,061,873
Construction in progress	-	169,597	-	169,597
Equipment	<u>194,305</u>	<u>-</u>	<u>-</u>	<u>194,305</u>
Total	\$ <u>2,256,178</u>	<u>169,597</u>	<u>-</u>	<u>2,425,775</u>
Less Accumulated depreciation	<u>(437,227)</u>			<u>(504,928)</u>
Net capital assets in service	\$ <u>1,818,951</u>			<u>1,920,847</u>

Land of \$76,228 and Construction in progress of \$169,597 are not being depreciated. Depreciation expense was charged to the Component Unit in the amount of \$67,701.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(4) Capital Assets, Continued

A summary of changes in Enterprise (Water and Sewer) Fund property, plant and equipment and related accumulated depreciation follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Land and buildings	\$ 217,287	-	-	217,287
Utility plant	9,805,277	66,400	-	9,871,677
Construction in progress	44,725	-	-	44,725
Equipment	<u>307,457</u>	<u>62,200</u>	-	<u>369,657</u>
Total	<u>10,374,746</u>	<u>128,600</u>	<u>-</u>	<u>10,503,346</u>
Less accumulated depreciation	<u>(5,488,488)</u>			<u>(5,780,921)</u>
Net plant in service	\$ <u>4,886,258</u>			<u>4,722,425</u>

All assets except land and land rights of \$62,642 and Construction in progress of \$44,725 are being depreciated. Depreciation expense was \$292,433 in 2018.

A summary of changes in Enterprise (Gas) Fund property, plant and equipment and related accumulated depreciation follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Utility plant	\$ 812,694	-	-	812,694
Buildings	15,585	-	-	15,585
Equipment	<u>111,699</u>	-	-	<u>111,699</u>
Total	<u>939,978</u>	<u>-</u>	<u>-</u>	<u>939,978</u>
Less accumulated depreciation	<u>(586,726)</u>			<u>(610,246)</u>
Net plant in service	\$ <u>353,252</u>			<u>329,732</u>

All assets are being depreciated. Depreciation expense was \$23,520 for the year ended.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(5) Long-Term Debt Payable and Other Obligations Payable

The following schedule reflects the changes in long-term debt, as shown in the General Obligation Debt during the fiscal year 2018.

Primary Government:

	Interest Rates	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital Outlay Notes and Bonds Payable					
Capital Outlay – Fire truck	4.00%	\$ <u>221,438</u>	<u>-</u>	<u>(221,438)</u>	<u>-</u>
		\$ <u>221,438</u>	<u>-</u>	<u>(221,438)</u>	<u>-</u>

*Additionally, the City has an interim loan of \$493,575.

Component Unit:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital Outlay Note:				
Capital Outlay - Airport	<u>200,020</u>	<u>-</u>	<u>13,265</u>	<u>186,755</u>

The Airport has a line of credit (\$300,000 maximum) that is being used to fund capital improvements.

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Water and Sewer) Fund during the fiscal year 2018.

	Interest Rates	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Bonds and Notes Payable:					
Rural Loan	4.25%	590,799	-	(590,799)	-
State Loan	4.00%	43,307	-	(9,605)	33,702
2002 Bonds	3.50%	<u>74,000</u>	<u>-</u>	<u>(40,000)</u>	<u>34,000</u>
Total		<u>708,106</u>	<u>-</u>	<u>(640,404)</u>	<u>67,702</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Gas) Fund during the fiscal year 2018.

	<u>Interest Rates</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>
Bonds and Notes Payable:					
2002 Issue	3.50%	<u>36,000</u>	<u>-</u>	<u>(15,000)</u>	<u>21,000</u>
Total		\$ <u>36,000</u>	<u>-</u>	<u>(15,000)</u>	<u>21,000</u>

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2018, are as follows:

Primary Government:

The City has an interim loan of \$493,575. Principal and interest payments will be made once the loan amount is finalized.

Component Unit:

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2018, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	<u>186,755</u>	<u>5,592</u>
Total	\$ <u>186,755</u>	<u>5,592</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(5) Long-Term Debt Payable and Other Obligations Payable, Continued

Utility Funds

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2018, are as follows:

	<u>Water and Sewer Fund</u>	
Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	49,401	4,921
2020	<u>18,301</u>	<u>4,359</u>
Total	\$ <u>67,702</u>	<u>9,280</u>

	<u>Gas Fund</u>	
Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	<u>21,000</u>	<u>1,152</u>
Total	\$ <u>21,000</u>	<u>1,152</u>

(6) Contributed Capital - Enterprise Funds

In accordance with GASB No. 33 the City no longer records contributed capital from customer tap fees and grants from other governments. The City has recorded these amounts in the net position section of the statement of Net Position.

(7) Interfund Transactions

Interfund receivables and payables at June 30, 2018 were as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Natural Gas Fund	\$ -	16,872
General Fund	114,990	-
Sanitation Fund	22,366	-
Water and Sewer Fund	<u>16,872</u>	<u>137,356</u>
Total	\$ <u>154,228</u>	<u>154,228</u>

The City will often make joint purchases among funds with one fund making the payment. The above balances represent such joint purchases. The City will reduce these balances during the year.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(8) Pension Plan

General Information about the Pension Plan

Plan description. Employees of Clifton are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated, Title 8, Chapter 34-37, establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms. At the measurement date of June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>14</u>
Total	<u>38</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(8) Pension Plan, Continued

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be charged by the Tennessee General Assembly. Employees contribute 5 percent of salary. Clifton makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, employer contributions for Clifton were \$36,023 based on a rate of (4.86%) percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Clifton's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Clifton's net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

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

Inflation 2.5 percent

Salary increases Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation averaging 4.00 percent.

Investment rate of return 7.25 percent, net of pension plan investment expenses, including inflation.

Cost-of-Living Adjustment 2.25 percent

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(8) Pension Plan, Continued

Changes of assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates by return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real Estate	4.32%	10%
Short-term securities	0.00%	1%
Total		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Clifton will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

(8) Pension Plan, Continued

Changes in the Net Pension Liability (Asset)

	Total Pension <u>Liability</u> (a)	Increase (Decrease) Plan Fiduciary Net <u>Position</u> (b)	Net Pension Liability <u>(Asset)</u> (a)-(b)
Balance June 30, 2016	1,202,673	1,460,277	(257,604)
Changes for the year:			
Service cost	32,420		32,420
Interest cost	88,838		88,838
Difference between expected and actual experience	(134,340)		(134,340)
Changes in assumptions	23,888		23,888
Employer contributions		24,734	(24,734)
Employee contributions		18,514	(18,514)
Net investment income		162,141	(162,141)
Benefit payments, including refunds of employee contributions	(101,177)	(101,177)	0
Administrative expense		(985)	985
Other charges		-	-
Net changes	(90,371)	103,227	(193,598)
Balance June 30, 2017	\$1,112,302	\$1,563,504	(\$451,202)

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Clifton calculated using the discount rate of 7.25 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Clifton's net pension Liability (asset)	(310,200)	(451,202)	(568,993)

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(8) Pension Plan, Continued

Pension Expense (Negative Pension Expense) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense (Negative Pension Expense). For the year ended June 30, 2018, Clifton recognized negative pension expense of \$39,937.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, Clifton reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual experience	2,062	187,333
Net difference between projected and Actual earning on pension plan Investments	411	-
Changes in Assumptions	20,475	-
Contributions subsequent to the Measurement date of June 30, 2017	<u>36,023</u>	<u>-</u>
Total	<u>58,971</u>	<u>187,333</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction (increase) to net position liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2019	(36,354)
2020	(15,827)
2021	(27,718)
2022	(42,078)
2023	(26,632)
Thereafter	(15,778)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(9) Other Postemployment Benefits For Retiree Health Insurance

Plan description – Employees of the City, who were hired prior to July 1, 2015, are provided with pre-65 retiree health insurance benefits through the closed Local Government OEB Plan (LGOP administered by the Tennessee Department of Finance and Administration. This plan is considered to be multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB). However, for accounting purposes, this plan will be treated as a single-employer plan. All eligible pre-65 retired employees and disability participants of local governments, who chose coverage, participate in the LGOP. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015.

Benefits provided -The City offers the LGOP to provide health insurance coverage to eligible pre-65 retirees and disabled participants of local governments. Insurance coverage is the only postemployment benefit provided to retirees. An insurance committee created in accordance with TCA 8-27-701 establishes and amends the benefit terms of the LGOP. All members have the option of choosing between the premier preferred provider organization (PPO), standard PPO, limited PPO or the wellness health-savings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members, of the LGOP, receives the same plan benefits as active employees, at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Participating employers determine their own policy related to direct subsidies provided for the retiree premiums. The City does not directly subsidize and are only subject to the implicit. The LGOP is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement NO. 75.

Employees covered by benefit terms. At July 1, 2017, the following employees were covered by the benefit terms of the LGOP:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>12</u>
Total	<u>12</u>

An insurance committee, created in accordance with TCA 8-27-701, establishes the required payments to the LGOP by member employers and employees through the blended premiums established for active and retired employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to established premium rates. For the fiscal year ended June 30, 2018, the City paid \$147 to the LGOP for OPEB benefits as they came due.

Actuarial assumptions-The total OPEB liability on the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all the periods included in the measurement, unless otherwise specified.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

(9) Other Postemployment Benefits For Retiree Health Insurance, Continued

Inflation - 2.25%

Salary increases - Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent.

Healthcare cost trend rates - 7.5% for 2018, decreasing annually over a 33 year period to an ultimate rate of 3.71%.

Retiree's share of benefit-related costs – Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012- June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables were used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for Annuitants for non-disabled post retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2% load for males and a -3% load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10% load.

Discount rate-The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on a 20 year, tax exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-year Municipal GO AA index.

Changes in assumptions-The discount rate was changed from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of total OPEB liability to changes in the discount rate-The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower 2.56% or 1-percentage higher 4.56% than the current discount rate.

1% Decrease	Current Discount Rate Assumption	1% Increase
(2.56%)	(3.56%)	(4.56%)
27,944	26,107	24,316

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(9) Other Postemployment Benefits For Retiree Health Insurance, Continued

Sensitivity of total OPEB liability to changes in the healthcare cost trend rate – The following presents the total OPEB liability related to the LGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-lower (6.00% decreasing to 3.77%) or 1-percentage point higher (8.00 decreasing to 5.77%) than the current healthcare cost trend rate.

1% Decrease (6.00% to 3.77%)	Current Healthcare Cost Trend Rate Assumption (7.00 to 4.77%)	1% Increase (8.00 to 5.77%)
23,113	26,107	29,627

OPEB Expense

Service Cost	\$ 2,854
Interest on the Total OPEB liability	774
Current-Period Benefit Changes	0
OPEB Plan Administrative Expense	0
Recognition of Outflow/(Inflow) of Resources due to liabilities	(126)
Total OPEB Expense	\$ 3,502

Recognition of Deferred Outflows and Inflows of Resources

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the average of the expected remaining service lives for purposes of recognizing the applicable combined deferred outflows and inflows of resources established in the current measurement period is 7.9 years.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual experience	-	-
Changes in assumptions	-	1,042
Contributions /Benefits paid after the Measurement date	147	-
Total	<u>147</u>	<u>1,042</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(9) Other Postemployment Benefits For Retiree Health Insurance, Continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in employee benefit expense as follows:

Year Ended June 30:

2019	(126)
2020	(126)
2021	(126)
2022	(126)
2023	(126)
Thereafter	<u>(412)</u>
Total	(1,042)

In the table shown above, positive amounts will increase employee benefit expense while negative amounts will decrease employee benefit expense.

Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

(10) Commitments and Contingencies

Litigation:

There are no pending lawsuits in which the City is involved.

Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the applicable fund.

(11) Risk Management

The City of Clifton is exposed to various risks to general liability and property and casualty losses. The City has decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability and property and casualty coverage. The City joined TML Insurance Pool which is a public entity risk pool established by the Tennessee Municipal League, an association of member cities. The City pays an annual premium to the TML for its general liability and property and casualty insurance coverage. The creation of the pool provides for it to be self-sustaining through member premiums. The City has not had claims in excess of insurance coverage during the last three years.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2018

(12) Major Customer

The City has a state prison within the City limits and provides water, sewer and gas services to this facility per the terms of written contracts. The prison accounts for over 40% of gas revenues and over 60% of water and sewer revenues.

(13) Restatement

The City of Clifton has restated its beginning Net Position to account for the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

REQUIRED
SUPPLEMENTARY
INFORMATION

CITY OF CLIFTON, TENNESSEE

Schedule of Required Supplementary Information

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS

Last Fiscal Year ending June 30

	2014	2015	2016	2017
Total pension liability (asset)				
Service cost	\$ 33,516	\$ 36,667	\$ 33,368	\$ 32,420
Interest	\$ 78,285	\$ 85,435	\$ 90,015	\$ 88,838
Changes in benefit terms	-	-	\$ -	\$ -
Differences between actual & expected experience	\$ 4,810	\$ (31,357)	\$ (75,975)	\$ (134,340)
Change of assumptions	-	-	-	\$ 23,888
Benefit payments, including refunds of employee contributions	\$ (19,241)	\$ (29,619)	\$ (23,135)	\$ (101,177)
Net change in total pension liability (asset)	\$ 97,370	\$ 61,126	\$ 24,273	\$ (90,371)
Total pension liability (asset)-beginning	\$ 1,019,904	\$ 1,117,274	\$ 1,178,400	\$ 1,202,673
Total pension liability (asset)-ending (a)	\$ 1,117,274	\$ 1,178,400	\$ 1,202,673	\$ 1,112,302
Plan fiduciary net position				
Contributions-employer	\$ 29,290	\$ 29,518	\$ 28,152	\$ 24,734
Contributions-employee	\$ 21,922	\$ 23,171	\$ 21,072	\$ 18,514
Net investment income	\$ 187,439	\$ 41,428	\$ 37,409	\$ 162,141
Benefit payments, including refunds of employee contributions	\$ (19,241)	\$ (29,619)	\$ (23,135)	\$ (101,177)
Administrative expense	\$ (545)	\$ (650)	\$ (959)	\$ (985)
Other	-	-	-	-
Net change in plan fiduciary net position	\$ 218,865	\$ 63,848	\$ 62,539	\$ 103,227
Plan fiduciary net position-beginning	\$ 1,115,025	\$ 1,333,890	\$ 1,397,738	\$ 1,460,277
Plan fiduciary net position-ending (b)	\$ 1,333,890	\$ 1,397,738	\$ 1,460,277	\$ 1,563,504
Net Pension Liability (asset)-ending (a) - (b)	\$ (216,616)	\$ (219,338)	\$ (257,604)	\$ (451,202)
Plan fiduciary net position as a percentage of total pension liability	119.39%	118.61%	121.42%	140.56%
Covered payroll	\$ 438,448	\$ 441,881	\$ 421,440	\$ 370,274
Net pension liability (asset) as a percentage of covered payroll	-49.41%	-49.64%	-61.12%	-121.86%

Changes of assumptions. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

CITY OF CLIFTON, TENNESSEE

**Schedule of Contributions Based on Participation in the
Public Employee Pension Plan of TCRS**

For the Year Ended June 30, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	29,290	0	0	17,995	36,023
Contributions in relation to the actuarially determined contribution	<u>29,290</u>	<u>29,518</u>	<u>28,152</u>	<u>24,734</u>	<u>36,023</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>(\$28,152)</u>	<u>(\$6,739)</u>	<u>\$0</u>
Covered-employee payroll	<u>438,448</u>	<u>441,881</u>	<u>421,440</u>	<u>370,274</u>	<u>539,266</u>
Contributions as a percentage covered-employee payroll	6.68%	6.68%	6.68%	6.68%	6.68%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from TCRS GASB website for prior years' data, if needed.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for fiscal year 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by Year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

CITY OF CLIFTON, TENNESSEE

Schedule of Required Supplementary Information- OPEB

Schedule of Changes in Total OPEB Liability and Related Ratios

Measurement Year ending June 30

	2017
Total OPEB Liability	
Service Cost	\$ 2,854
Interest on the Total OPEB Liability	\$ 774
Change in Benefit Terms	\$ -
Difference between expected and actual experience of the Total OPEB Liability	\$ -
Changes in assumptions and other inputs	\$ (1,168)
Benefit payments	\$ -
Net change in Total OPEB Liability	\$ 2,460
Total OPEB Liability - Beginning	\$ 23,647
Total OPEB Liability - Ending	\$ 26,107

Estimated Covered -Employee Payroll N/A

Total OPEB Liability as a Percentage of Covered- Employee Payroll N/A

Notes to Schedule

Valuation Date: June 30, 2017

Measurement Date: June 30, 2017

Methods and Assumptions Used to Determine Total OPEB Liability:

Actuarial Cost Method: Entry Age Normal

Inflation: 2.25%

Discount Rate: 3.56%

Salary Increases: Salary increase rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System; 3.44%-8.72%, including inflation.

Retirement Age: Retirement rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).

Mortality: Mortality tables used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System. They are based on the results of a statewide experience study (undertaken on behalf of TCRS).

Healthcare Cost Trend Rates: Based on the Getzen Model, with trend starting at 7.50% for 2018 calendar year, and gradually decreasing 33-year period to an ultimate trend rate of 3.53% with 0.18% added to approximate the effect of the excise tax.

Aging factors: Based on the 2013 SOA Study "Health Care Costs- From Birth to Death".

Expenses: Administrative expenses are included in the per capita health costs.

Other Information:

Notes See the Actuarial Valuation Report as of July 1, 2017 (dated July 16, 2018).

Changes in assumptions and other inputs include the change in the discount rate from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change is reflected in the Schedule of Changes in Total OPEB Liability.

There were no benefit changes during the measurement period.

SUPPLEMENTAL INFORMATION

CITY OF CLIFTON, TENNESSEE

Capital Assets Used in the Operation of the Government Funds

Schedule of Changes in Capital Assets by Type

June 30, 2018

Primary government:

<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Land	\$283,000	0	90,000	193,000
Buildings	323,780	15,903	0	339,683
Improvements other than buildings	732,697	33,980	0	766,677
Infrastructure	724,004	0	0	724,004
Equipment	<u>677,226</u>	<u>34,204</u>	<u>39,822</u>	<u>671,608</u>
Total Assets	<u>\$2,740,707</u>	<u>84,087</u>	<u>129,822</u>	<u>2,694,972</u>

Component Unit-

<u>Description</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Land	\$76,228	0	0	76,228
Improvements	1,952,445	0	0	1,952,445
Buildings	33,200	0	0	33,200
Equipment	<u>194,305</u>	<u>169,597</u>	<u>0</u>	<u>363,902</u>
Total Assets	<u>\$2,256,178</u>	<u>169,597</u>	<u>0</u>	<u>2,425,775</u>

CITY OF CLIFTON, TENNESSEE

Capital Assets Used in the Operation of the Government Funds

Schedule of Capital Assets by Function and Activity

June 30, 2018

Primary government:

<u>Description</u>	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
General government	\$763,224	163,903	15,833	942,960
Police department	39,822	0	122,815	162,637
Fire department	0	175,780	484,298	660,078
Street department	724,004	0	31,737	755,741
Parks and recreation	156,631	0	16,925	173,556
Total Assets	<u>\$1,683,681</u>	<u>339,683</u>	<u>671,608</u>	<u>2,694,972</u>

Component Unit

<u>Description</u>	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
Airport	2,028,673	33,200	363,902	2,425,775
	<u>\$2,028,673</u>	<u>33,200</u>	<u>363,902</u>	<u>2,425,775</u>

CITY OF CLIFTON, TENNESSEE

**Schedule of Cash and Cash Equivalents and Certificate of Deposits
All Funds**

June 30, 2018

	<u>Carrying Value</u>
General Fund:	
Demand deposits	615,597
Total General Fund	<u>615,597</u>
State Street Aid Fund:	
Demand deposits	198,621
Total State Street Aid Fund	<u>198,621</u>
Sanitation Fund:	
Demand deposits	53,574
Total Sanitation Fund	<u>53,574</u>
Drug Fund - Demand deposits	<u>16,199</u>
Total Special Revenue Funds	<u>268,394</u>
Water and Sewer Fund:	
Demand deposits	244,663
Certificate of deposits	637,908
Total Water and Sewer Fund	<u>882,571</u>
Gas Fund:	
Demand deposits	139,954
Certificate of deposits	210,618
Total Gas Fund	<u>350,572</u>
Total Enterprise Funds	<u>1,233,143</u>
Component Unit	<u>15,655</u>
Total Cash and Cash Equivalents - All Funds	<u><u>\$2,132,789</u></u>

CITY OF CLIFTON, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2018

<u>Tax Year</u>	<u>Balance July 1, 2017</u>	<u>Levy</u>	<u>Collections and Changes in Assessment</u>	<u>Balance June 30, 2018</u>
2018	\$ -	160,000	0	160,000
2017	100,000	61,697	148,093	13,604
2016	6,896	0	3,532	3,364
2015	2,582	0	2,408	174
2014	2,810	0	2,743	67
2013	0	0	0	0
2012	12	0	0	12
2011	30	0	30	0
2010	30	0	0	30
	<u>112,360</u>	<u>221,697</u>	<u>156,806</u>	<u>177,251</u>

<u>Tax Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Adjustment and Collections</u>	<u>Outstanding Delinquent Taxes</u>
2018	\$ 1.0000	\$ 160,000	\$ 0	\$ 160,000
2017	1.0000	161,697	148,093	13,604
2016	0.6469	101,036	97,672	3,364
2015	0.6469	100,377	100,203	174
2014	0.6469	99,498	99,431	67
2013	0.6469	102,122	102,122	0
2012	0.6469	102,288	102,276	12
2011	0.6469	102,099	102,099	0
2010	0.6469	98,975	98,945	30
2009	0.84	103,042	103,042	0

All delinquent taxes except for the 2017 tax year have been turned over to the County.

CITY OF CLIFTON, TENNESSEE

**Schedule of Debt Service Requirements -
General Obligation Debt**

June 30, 2018

The City has an interim loan of \$493,575.

CITY OF CLIFTON, TENNESSEE

**Schedule of Debt Service Requirements -
Component Unit**

June 30, 2018

<u>Year</u>	<u>TOTAL</u>	<u>TOTAL</u>
	<u>Principal</u>	<u>Interest</u>
2019	186,755	5,592
	<u>\$186,755</u>	<u>\$5,592</u>

CITY OF CLIFTON, TENNESSEE

**Schedule of Debt Service Requirements-
Water and Sewer Fund**

June 30, 2018

<u>Year</u>	<u>2002 WATER AND SEWER REVENUE BONDS</u>		<u>WATER AND SEWER STATE LOAN</u>		<u>TOTAL</u>	<u>TOTAL</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	34,000	2,748	15,401	2,173	49,401	4,921
2020	-	-	18,301	4,359	18,301	4,359
	<u>34,000</u>	<u>2,748</u>	<u>33,702</u>	<u>6,532</u>	<u>67,702</u>	<u>9,280</u>

CITY OF CLIFTON, TENNESSEE

**Schedule of Debt Service Requirements -
Natural Gas Fund**

June 30, 2018

<u>Year</u>	2002 WATER AND SEWER REVENUE BONDS		TOTAL	TOTAL
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	21,000	1,152	21,000	1,152
	<u>21,000</u>	<u>1,152</u>	<u>21,000</u>	<u>1,152</u>

CITY OF CLIFTON, TENNESSEE

Schedule of Insurance Coverage

June 30, 2018

<u>Type of Coverage</u>		<u>Amounts</u>
Commercial Property	Buildings and equipment	Various
Auto Liability	Per occurrence	350,000
	Personal injury	130,000
	Property	50,000
Public officials	Employee Dishonesty	50,000
	Forgery/theft	25,000
	Errors and Omissions	500,000
General liability	Per occurrence	350,000
	Personal injury	130,000
	Property	50,000
Worker's compensation		Statutory

CITY OF CLIFTON, TENNESSEE

Schedule of Bonds - Principal Officials

June 30, 2018

<u>Official</u>	<u>Title</u>	<u>Bond*</u>
Elected Officials:		
Randy Burns	Mayor	100,000
Carol Hickerson	Vice Mayor	100,000
Mark Staggs	Commissioner	100,000
Eva Ruth Warren	Commissioner	100,000
Layton Packwood	Commissioner	100,000
Management:		
Doug Kibbey	City Manager	100,000
Barbara Culp	City Recorder	100,000

*** Coverage is thru the Tennessee Municipal League Insurance Pool.**

CITY OF CLIFTON, TENNESSEE

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2018

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2017	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2018
Federal Program:								
14.288	GG-14-39341-00	Community Development Block Grant - Fire	U. S. Department of Housing and Urban Development thru Economic and Community Development	0	17,062	0	17,062	0
State Program:								
N/A	N/A	Tourism	State of Tennessee Department of Tourism	0	39,285	0	39,285	0
Component Unit:								
			Total Primary Government	0	56,347	0	56,347	0
State Program:								
N/A	AERO91555011804	Airport Professional Services	State of Tennessee Department of Transportation	0	6,250	0	6,250	0
N/A	AERO 0616121	Airport Maintenance	State of Tennessee Department of Transportation	0	17,901	0	17,901	0
N/A	AERO94096	Airport Equipment	State of Tennessee Department of Transportation	0	169,597	0	169,597	0
		Total		0	193,748	0	193,748	0

This schedule prepared on the accrual basis of accounting.



AWWA Free Water Audit Software: Reporting Worksheet

AWAS v6.0
American Water Works Association
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Click to access definition
 Click to add a comment

Water Audit Report for: City of Clifton

Reporting Year: 2018 7/2017 - 6/2018

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Volume from own sources: 9 165.636 MG/Yr
Water imported: n/a 0.000 MG/Yr
Water exported: n/a 0.000 MG/Yr

WATER SUPPLIED: 165.636 MG/Yr

Master Meter and Supply Error Adjustments

Enter grading in column 'E' and 'J' Pcnt: 1 Value: 1 MG/Yr
 2 2 MG/Yr
 3 3 MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered: 9 135.640 MG/Yr
Billed unmetered: n/a 0.000 MG/Yr
Unbilled metered: 8 9.750 MG/Yr
Unbilled unmetered: 5 2.070 MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: 147.460 MG/Yr

Click here: for help using option buttons below

Pcnt: 1.25% Value: 1 MG/Yr

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

18.176 MG/Yr

Apparent Losses

Unauthorized consumption: 5 0.414 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies: 8 1.469 MG/Yr
Systematic data handling errors: 8 0.339 MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: 2.222 MG/Yr

Pcnt: 0.25% Value: 1 MG/Yr

1.00% 1 MG/Yr
0.25% 1 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 15.954 MG/Yr

WATER LOSSES: 18.176 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 29.996 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains: 8 25.0 miles
Number of active AND inactive service connections: 8 700
Service connection density: 8 28 conn./mile main

Are customer meters typically located at the curbstop or property line? Yes

(length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: 8
Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 8 65.0 psi

COST DATA

Total annual cost of operating water system: 9 \$672,000 \$/Year
Customer retail unit cost (applied to Apparent Losses): 10 \$4.18 \$/1000 gallons (US)
Variable production cost (applied to Real Losses): 9 \$735.00 \$/Million gallons ☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 84 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Unauthorized consumption

3: Systematic data handling errors



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WIAS v6.0
American Water Works Association
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Water Audit Report for: **City of Clifton**

Reporting Year: **2018** **7/2017 - 6/2018**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 84 out of 100 ***

System Attributes:

Apparent Losses:	2.222	MGNr
+	15.954	MGNr
=	18.176	MGNr
Unavoidable Annual Real Losses (UARL): [See limits in definition] MGNr		
Annual cost of Apparent Losses:	\$9,287	
Annual cost of Real Losses:	\$11,726	Valued at Variable Production Cost

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial:	Non-revenue water as percent by volume of Water Supplied:	18.1%
	Non-revenue water as percent by cost of operating system:	4.4%
Operational Efficiency:	Apparent Losses per service connection per day:	8.70 gallons/connection/day
	Real Losses per service connection per day:	N/A gallons/connection/day
	Real Losses per length of main per day*:	1,748.36 gallons/mile/day
	Real Losses per service connection per day per psi pressure:	N/A gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):		15.95 million gallons/year
Infrastructure Leakage Index (ILI) (CARL/UARL):		

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

COMPLIANCE AND INTERNAL CONTROL

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

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

Mayor and Board of Commissioners of the
City of Clifton, Tennessee
Clifton, Tennessee

I have audited 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit and each major fund as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Clifton's basic financial statements, and have issued a report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

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

My consideration of the 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 discussed below, I identified deficiencies in internal control that I consider to be material weaknesses (2018-001 Lack of Separation of Duties and 2018-002 Journal Entries).

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 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. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described below (2018-001 and 2018-002) to be material weaknesses.

The material weakness is as follows:

2018-001 Separation of Duties

Condition: The City cannot fully segregate the record-keeping and custodial functions of its internal controls due to the size of its staff. The City has three employees that are responsible for all of the record-keeping, accounting, and custodial functions.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: We realize that the staff size will not allow the City to completely segregate the duties to the optimum level desired. However, the accounting functions should be segregated as much as possible. Management needs to be aware that this weakness exists in the system of internal accounting control.

Response and Corrective Action Plan: We agree. This comment is related to our size. It is not economically feasible at this time to hire a sufficient number of people to adequately separate the duties. We (the Board) do continue to monitor our finances and internal control. We are the contact related to this information.

2018-002 Journal Entries

Condition: Several year-end journal entries were needed to agree the general ledger to the supporting detail records.

Criteria: Generally accepted accounting principles require that the general ledger agree to these detailed records.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when such accounts do not agree to the general ledger.

Recommendation: The general ledger should be reconciled to the account details on at least a monthly basis.

Response and Corrective Action Plan: We agree. We will work to reduce the journal entries needed at year end. The contact person for this activity is our CMFO.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clifton's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the City of Clifton in a separate letter dated October 31, 2018.

Response to Findings

The City of Clifton's response to the finding identified in the audit is described above. The City of Clifton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of the testing of internal control and compliance and the result 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.

Juli R Poole, CPA

October 31, 2018

CITY OF CLIFTON, TENNESSEE

Schedule of Disposition of Prior Year Comments

June 30, 2018

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017 – 001	Separation of Duties	Repeated
The prior year finding number is 2001-001. The current year finding number is 2018-001.		
2017 – 002	Journal Entries	Repeated
The original finding number was 2017-002. The current finding number is 2018-002.		