

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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.

(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. Cash and cash equivalents were adequately covered by federal depository insurance, insured by the depository bank's participation in the State of Tennessee Bank Collateral Pool or collateralized by securities, pledged for deposits, held by an independent third-party financial institution under the terms of a safekeeping collateral agreement in the City's name. Investment policies of the City follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government.

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

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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	\$ 69,679	185,414	-	255,093
Special Revenue Fund	16,353	-	15,056	31,409
Enterprise Fund	-	-	187,230	187,230
Less allowance for doubtful accounts	-	-	(2,820)	(2,820)
Total	\$ <u>51,872</u>	<u>185,414</u>	<u>199,466</u>	<u>470,912</u>

(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:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Land, buildings and improvements	\$ 2,023,364	366,897	-	2,390,261
Equipment	<u>671,608</u>	<u>355,614</u>	<u>120,340</u>	<u>906,882</u>
Total	\$ <u>2,694,972</u>	<u>722,511</u>	<u>120,340</u>	<u>3,297,143</u>
Less Accumulated depreciation	<u>(1,022,148)</u>			<u>(1,052,014)</u>
Net capital assets in service	\$ <u>1,672,824</u>			<u>2,245,129</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	\$ 45,170
Police department	27,462
Fire department	45,961
Highways and Streets	29,848
Parks	<u>1,765</u>
Total	150,206

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(4) Capital Assets, Continued

Component Unit:

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

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</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>\$ 2,425,775</u>	<u>-</u>	<u>-</u>	<u>2,425,775</u>
Less Accumulated depreciation	<u>(504,928)</u>			<u>(570,107)</u>
Net capital assets in service	<u>\$ 1,920,847</u>			<u>1,855,668</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 \$65,179.

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

	Balance <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</u>
Land and buildings	\$ 217,287	22,659	-	239,946
Utility plant	9,871,677	162,020	-	10,033,697
Construction in progress	44,725	-	-	44,725
Equipment	<u>369,657</u>	<u>25,080</u>	<u>6,500</u>	<u>388,237</u>
Total	<u>10,503,346</u>	<u>209,759</u>	<u>6,500</u>	<u>10,706,605</u>
Less accumulated depreciation	<u>(5,780,921)</u>			<u>(6,077,356)</u>
Net plant in service	<u>\$ 4,722,425</u>			<u>4,629,249</u>

All assets except land and land rights of \$174,301 and Construction in progress of \$44,725 are being depreciated. Depreciation expense was \$302,935 in 2019.

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(4) Capital Assets, Continued

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

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
Utility plant	\$ 791,454	-	-	791,454
Buildings	15,585	-	-	15,585
Equipment	<u>132,939</u>	<u>12,538</u>	<u>68,832</u>	<u>76,645</u>
Total	<u>939,978</u>	<u>12,538</u>	<u>68,832</u>	<u>883,684</u>
Less accumulated depreciation	<u>(610,246)</u>			<u>(567,443)</u>
Net plant in service	\$ <u>329,732</u>			<u>316,241</u>

All assets are being depreciated. Depreciation expense was \$26,029 for the year ended.

(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 2019.

Primary Government:

	<u>Interest Rates</u>	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital Outlay Notes and Bonds Payable					
Capital Outlay – Fire truck	3.00%	\$ <u>493,575</u>	<u>-</u>	<u>(39,020)</u>	<u>454,555</u>
		\$ <u>493,575</u>	<u>-</u>	<u>(39,020)</u>	<u>454,555</u>

Component Unit:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital Outlay Note:				
Capital Outlay - Airport	<u>186,755</u>	<u>-</u>	<u>186,755</u>	<u>-</u>

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

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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 (Water and Sewer) Fund during the fiscal year 2019.

	<u>Interest Rates</u>	Balance July 1, 2018	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 2019
Bonds and Notes Payable:					
State Loan	4.00%	33,702	-	(12,389)	21,313
2002 Bonds	3.50%	<u>34,000</u>	<u>-</u>	<u>(34,000)</u>	<u>-</u>
Total		<u>67,702</u>	<u>-</u>	<u>(46,389)</u>	<u>21,313</u>

The following schedule reflects the changes in long-term debt, as shown in the Enterprise (Gas) Fund during the fiscal year 2019.

	<u>Interest Rates</u>	Balance July 1, 2018	<u>Additions</u>	<u>Retirements</u>	Balance June 30, 2019
Bonds and Notes Payable:					
2002 Issue	3.50%	<u>21,000</u>	<u>-</u>	<u>(21,000)</u>	<u>-</u>
Total		\$ <u>21,000</u>	<u>-</u>	<u>(21,000)</u>	<u>-</u>

Principal and interest requirements to maturity on all outstanding bonds, loans and obligations as of June 30, 2019, are as follows:

Primary Government:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	40,191	11,428
2021	41,396	10,223
2022	42,638	8,981
2023	43,917	7,702
2024	45,235	6,384
2025-2029	<u>241,178</u>	<u>12,093</u>
Total	\$ <u>454,555</u>	<u>56,811</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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, 2019, are as follows:

	<u>Water and Sewer Fund</u>	
<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	12,502	509
2021	<u>8,811</u>	<u>198</u>
Total	\$ <u>21,313</u>	<u>707</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, 2019 were as follows:

<u>Fund</u>	<u>Due</u> <u>From</u>	<u>Due</u> <u>To</u>
Natural Gas Fund	\$ -	43,771
General Fund	104,639	-
Sanitation Fund	23,775	7,272
Water and Sewer Fund	<u>38,993</u>	<u>116,364</u>
Total	\$ <u>167,407</u>	<u>167,407</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, 2019

(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 <http://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

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, 2018, 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	19
Active employees	<u>15</u>
Total	<u>40</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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, 2019, employer contributions for Clifton were \$17,385 based on a rate of (0.30%) 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, 2018, 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, 2018, 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 8.72 to 3.44 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, 2018 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, 2019

(8) Pension Plan, Continued

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%	<u>1%</u>
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)

	Increase (Decrease)		
<u>Total Pension Liability</u> (a)	<u>Plan Fiduciary Net Position</u> (b)	<u>Net Pension Liability (Asset)</u> (a)-(b)	
Balance June 30, 2017	1,112,302	1,563,504	(451,202)
Changes for the year:			
Service cost	76,330	-	76,330
Interest cost	85,219	-	85,219
Difference between expected and actual experience	(11,611)	-	(11,611)
Changes in assumptions	-	-	0
Employer contributions	-	35,918	(35,918)
Employee contributions	-	26,885	(26,885)
Net investment income	-	131,229	(131,229)
Benefit payments, including refunds of employee contributions	(26,400)	(26,400)	0
Administrative expense	-	(1,497)	1,497
Other charges	-	-	-
Net changes	123,538	166,135	(42,597)
Balance June 30, 2018	<u>\$1,235,840</u>	<u>\$1,729,639</u>	<u>(\$493,799)</u>

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 <u>(6.25%)</u>	Current Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Clifton's net pension Liability (asset)	(336,695)	(493,799)	(623,785)

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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, 2019, Clifton recognized negative pension expense of \$(20,068).

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2019, 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	1,375	162,484
Net difference between projected and Actual earning on pension plan Investments	-	6,949
Changes in Assumptions	17,062	-
Contributions subsequent to the Measurement date of June 30, 2018	<u>17,385</u>	<u>-</u>
Total	<u>35,822</u>	<u>169,433</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2018,” 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:	
2020	(21,084)
2021	(32,975)
2022	(47,335)
2023	(31,889)
2024	(17,713)
Thereafter	-

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, 2019

(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, 2018, 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>17</u>
Total	<u>17</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, 2019, the City paid \$211 to the LGOP for OPEB benefits as they came due.

Actuarial assumptions-The total OPEB liability on the June 30, 2018 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 – 6.75% for 2019, decreasing annually over a 32 year period to an ultimate rate of 3.81%.

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 3.62 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 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018. 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 or 1-percentage higher than the current discount rate.

1% Decrease	Current Discount Rate Assumption	1% Increase
(2.62%)	(3.62%)	(4.62%)
32,902	30,675	28,791

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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 or 1-percentage point higher than the current healthcare cost trend rate.

1% Decrease <i>(5.75% decreasing to 2.81%)</i>	Current Healthcare Cost Trend Rate Assumption <i>(6.75% decreasing to 3.81%)</i>	1% Increase <i>(7.75% decreasing to 4.81%)</i>
27,360	30,675	34,662

OPEB Expense

Service Cost	\$ 2,695
Interest on the Total OPEB liability	1,023
Current-Period Benefit Changes	0
OPEB Plan Administrative Expense	0
Recognition of Outflow/(Inflow) of Resources due to liabilities	<i>(27)</i>
Total OPEB Expense	\$ 3,691

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 6.2 years.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and Actual experience	-	31
Changes in assumptions	929	916
Contributions /Benefits paid after the Measurement date	<u>211</u>	<u>-</u>
Total	<u>1,140</u>	<u>947</u>

CITY OF CLIFTON, TENNESSEE

Notes to Financial Statements

June 30, 2019

(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:	
2020	(27)
2021	(27)
2022	(27)
2023	(27)
2024	(27)
Thereafter	117
Total	(18)

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, 2019

(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.

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	2018
Total pension liability (asset)					
Service cost	\$ 33,516	\$ 36,667	\$ 33,368	\$ 32,420	\$ 76,330
Interest	\$ 78,285	\$ 85,435	\$ 90,015	\$ 88,838	\$ 85,219
Changes in benefit terms	-	-	\$ -	\$ -	\$ -
Differences between actual & expected experience	\$ 4,810	\$ (31,357)	\$ (75,975)	\$ (134,340)	\$ (11,611)
Change of assumptions	-	-	-	\$ 23,888	\$ -
Benefit payments, including refunds of employee contributions	\$ (19,241)	\$ (29,619)	\$ (23,135)	\$ (101,177)	\$ (26,400)
Net change in total pension liability (asset)	\$ 97,370	\$ 61,126	\$ 24,273	\$ (90,371)	\$ 123,538
Total pension liability (asset)-beginning	\$ 1,019,904	\$ 1,117,274	\$ 1,178,400	\$ 1,202,673	\$ 1,112,302
Total pension liability (asset)-ending (a)	\$ 1,117,274	\$ 1,178,400	\$ 1,202,673	\$ 1,112,302	\$ 1,235,840
Plan fiduciary net position					
Contributions-employer	\$ 29,290	\$ 29,518	\$ 28,152	\$ 24,734	\$ 35,918
Contributions-employee	\$ 21,922	\$ 23,171	\$ 21,072	\$ 18,514	\$ 26,885
Net investment income	\$ 187,439	\$ 41,428	\$ 37,409	\$ 162,141	\$ 131,229
Benefit payments, including refunds of employee contributions	\$ (19,241)	\$ (29,619)	\$ (23,135)	\$ (101,177)	\$ (26,400)
Administrative expense	\$ (545)	\$ (650)	\$ (959)	\$ (985)	\$ (1,497)
Other	-	-	-	-	-
Net change in plan fiduciary net position	\$ 218,865	\$ 63,848	\$ 62,539	\$ 103,227	\$ 166,135
Plan fiduciary net position-beginning	\$ 1,115,025	\$ 1,333,890	\$ 1,397,738	\$ 1,460,277	\$ 1,563,504
Plan fiduciary net position-ending (b)	\$ 1,333,890	\$ 1,397,738	\$ 1,460,277	\$ 1,563,504	\$ 1,729,639
Net Pension Liability (asset)-ending (a) - (b)	\$ (216,616)	\$ (219,338)	\$ (257,604)	\$ (451,202)	\$ (493,799)
Plan fiduciary net position as a percentage of total pension liability	119.39%	118.61%	121.42%	140.56%	139.96%
Covered payroll	\$ 438,448	\$ 441,881	\$ 421,440	\$ 370,274	\$ 539,305
Net pension liability (asset) as a percentage of covered payroll	-49.41%	-49.64%	-61.12%	-121.86%	-91.56%

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, 2019

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	29,290	0	0	17,995	20,008	17,385
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>35,918</u>	<u>17,385</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>(\$28,152)</u>	<u>(\$6,739)</u>	<u>(\$15,910)</u>	<u>\$0</u>
Covered-employee payroll	<u>438,448</u>	<u>441,881</u>	<u>421,440</u>	<u>370,274</u>	<u>539,305</u>	<u>745,641</u>
Contributions as a percentage covered-employee payroll	6.68%	6.68%	6.68%	6.68%	6.66%	0.30%

GASB 68 requires 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 the TCRS GASB website for prior years' data, in needed.

Notes to Schedule

Valuation date: Actuarially determined contribution rates for fiscal year 2019 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	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment Rate of Return	7.25 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	2.25 percent

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 modifies mortality assumptions.

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	2018
Total OPEB Liability		
Service Cost	\$ 2,854	\$ 2,695
Interest on the Total OPEB Liability	\$ 774	\$ 1,023
Change in Benefit Terms	\$ -	\$ -
Difference between expected and actual experience of the Total OPEB Liability	\$ -	\$ (35)
Changes in assumptions and other inputs	\$ (1,168)	\$ 1,032
Benefit payments	\$ -	\$ (147)
Net change in Total OPEB Liability	\$ 2,460	\$ 4,568
Total OPEB Liability - Beginning	\$ 23,647	\$ 26,107
Total OPEB Liability - Ending	\$ 26,107	\$ 30,675
Estimated Covered -Employee Payroll	N/A	N/A
Total OPEB Liability as a Percentage of Covered- Employee Payroll	N/A	N/A

Notes to Schedule

Valuation Date: June 30, 2018
 Measurement Date: June 30, 2018

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, 2018 actuarial valuation of the Tennessee Consolidated Retirement System; 3.44%-8.72%, including inflation.

Retirement Age: Retirement rates used in the July 1, 2018 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, 2018 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 6.75% for 2019 calendar year, and gradually decreasing 32-year period to an ultimate trend rate of 3.53% with 0.28% 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, 2018 (dated September 15, 2019).

Following changes in assumptions and other inputs were made:

The discount rate was changed from 3.56% as of the beginning of the measurement period to 3.62% as of June 30, 2018.

The assumed initial costs and premium amounts were revised to reflect rates adopted for the 2019 plan year.

The assumed initial trend rate applicable to the 2019 plan year was revised from 5.40% to 6.75%.

These changes are 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, 2019

Primary government:

<u>Description</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2019</u>
Land	\$193,000	0	0	193,000
Buildings	339,683	225,031	0	564,714
Improvements other than buildings	766,677	0	0	766,677
Infrastructure	724,004	141,866	0	865,870
Equipment	671,608	355,614	120,340	906,882
Total Capital Assets	<u>\$2,694,972</u>	<u>722,511</u>	<u>120,340</u>	<u>3,297,143</u>

Component Unit-

<u>Description</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2019</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	363,902	0	0	363,902
Total Assets	<u>\$2,425,775</u>	<u>0</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, 2019

Primary government:

<u>Description</u>	<u>Land and Improvements</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
General government	\$763,224	248,090	10,000	1,021,314
Police department	39,822	0	167,497	207,319
Fire department	0	266,944	688,822	955,766
Street department	865,870	0	31,737	897,607
Parks and recreation	156,631	49,680	8,826	215,137
Total Assets	<u>\$1,825,547</u>	<u>564,714</u>	<u>906,882</u>	<u>3,297,143</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, 2019

	<u>Carrying Value</u>
General Fund:	
Demand deposits	223,827
Total General Fund	<u>223,827</u>
State Street Aid Fund:	
Demand deposits	151,457
Total State Street Aid Fund	<u>151,457</u>
Sanitation Fund:	
Demand deposits	48,229
Total Sanitation Fund	<u>48,229</u>
Drug Fund - Demand deposits	<u>30,068</u>
Total Special Revenue Funds	<u>229,754</u>
Water and Sewer Fund:	
Demand deposits	236,267
Certificate of deposits	<u>642,708</u>
Total Water and Sewer Fund	<u>878,975</u>
Gas Fund:	
Demand deposits	175,468
Certificate of deposits	<u>212,636</u>
Total Gas Fund	<u>388,104</u>
Total Enterprise Funds	<u>1,267,079</u>
Component Unit	<u>4,764</u>
Total Cash and Cash Equivalents - All Funds	<u>\$1,725,424</u>

CITY OF CLIFTON, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Year Ended June 30, 2019

<u>Tax Year</u>	<u>Balance July 1, 2018</u>	<u>Levy</u>	<u>Collections and Changes in Assessment</u>	<u>Balance June 30, 2019</u>
2019	\$ -	160,000	0	160,000
2018	160,000	6,215	145,722	20,493
2017	13,604	0	8,795	4,809
2016	3,364	0	3,294	70
2015	174	0	174	0
2014	67	0	67	0
2013	0	0	0	0
2012	12	0	0	12
2011	0	0	30	0
2010	30	0	0	30
	<u>177,251</u>	<u>166,215</u>	<u>158,082</u>	<u>185,414</u>

<u>Tax Year</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Adjustment and Collections</u>	<u>Outstanding Delinquent Taxes</u>
2019	\$ 1.0000	\$ 160,000	\$ 0	\$ 160,000
2018	1.0000	166,215	145,722	20,493
2017	1.0000	161,697	156,888	4,809
2016	0.6469	101,036	100,966	70
2015	0.6469	100,377	100,377	0
2014	0.6469	99,498	99,498	0
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

All delinquent taxes except for the 2018 tax year have been turned over to the County.

CITY OF CLIFTON, TENNESSEE

Schedule of Debt Service Requirements -
General Obligation Debt

June 30, 2019

Year	CAPITAL OUTLAY PEOPLE'S BANK		TOTAL	
	Principal	Interest	Principal	Interest
2020	40,191	11,428	40,191	11,428
2021	41,396	10,223	41,396	10,223
2022	42,638	8,981	42,638	8,981
2023	43,917	7,702	43,917	7,702
2024	45,235	6,384	45,235	6,384
2025	46,592	5,027	46,592	5,027
2026	47,990	3,629	47,990	3,629
2027	49,429	2,190	49,429	2,190
2028	50,912	707	50,912	707
2029	46,255	540	46,255	540
	<u>\$454,555</u>	<u>\$56,811</u>	<u>\$454,555</u>	<u>\$56,811</u>

CITY OF CLIFTON, TENNESSEE

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

June 30, 2019

<u>Year</u>	WATER AND SEWER STATE LOAN		TOTAL	TOTAL
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	12,502	509	12,502	509
2021	8,811	198	8,811	198
	<u>21,313</u>	<u>707</u>	<u>21,313</u>	<u>707</u>

CITY OF CLIFTON, TENNESSEE

Schedule of Changes in Long-term Debt by Individual Issue

June 30, 2019

	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2018	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6/30/2019
Business-Type Activities									
NOTES PAYABLE									
US Bank	\$ 285,000	4.00%	2002	12/1/2019	\$ 21,000	-	\$ 21,000	-	\$0
US Bank	695,000	4.00%	2002	12/1/2019	\$ 34,000	-	\$ 34,000	-	\$0
Clifton TDLA 594-02	300,000	1.30%	1999	12/1/2024	\$ 33,702	-	\$ 12,389	-	\$21,313
Total Notes Payable					\$ 88,702	\$ -	\$ 67,389	\$ -	\$ 21,313
Governmental Activities									
NOTES PAYABLE									
Peoples Bank	\$ 493,575	3.00%	2018	12/31/2029	\$ 493,575	-	\$ 39,020	-	\$454,555
Total Notes Payable					\$ 493,575	\$ -	\$ 39,020	\$ -	\$ 454,555

CITY OF CLIFTON, TENNESSEE

Schedule of Utility Rates and Information

June 30, 2019

<u>Water Rates</u>	<u>Inside City</u>	<u>Outside City</u>
Up to 2,000 gallons	\$8.36 Minimum charge	\$16.70 Minimum charge
Over 2,000 gallons	\$4.18 per 1,000 gallons	\$8.35 per 1,000 gallons

Sewer Rates - Inside City Limits Only

Sewer rates are equal to the water rates as noted above.

Natural Gas Rates* - Inside City Limits Only

Minimum bill (300 cubic feet) \$5.18

Per MCF Residential \$10.64 Commercial \$9.90 Industrial \$ 9.07

There were approximately 525 water customers, 375 sewer customers and 285 natural gas customers at yearend.

*Due to current changes in natural gas prices, the City adjusts its price each month to capture the price changes.

CITY OF CLIFTON, TENNESSEE

Schedule of Federal and State Financial Assistance

For the Year Ended June 30, 2019

CFDA Number	State Grant Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2018	Grant Receipts	Other Receipts	Grant Expenditures	Receivable (Deferred) Balance June 30, 2019
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	245,562	0	245,562	0
10.776	N/A	Assistance to Rural Communities	Total Federal programs	0	14,839	0	14,839	0
State Program:								
N/A	N/A	Tourism	State of Tennessee Department of Tourism	0	18,057	0	18,057	0
				Total State programs				
				0	18,057	0	18,057	0
				Total Primary Government				
				0	278,458	0	278,458	0
Component Unit:								
State Program:								
N/A	AERO91-0522-18	Airport Professional Services	State of Tennessee Department of Transportation	17,704	32,091	0	14,387	0
				Total				
N/A	AERO91-0423-19	Airport Maintenance	State of Tennessee Department of Transportation	0	3,670	0	3,670	0
				17,704	35,761	0	18,057	0

This schedule prepared on the accrual basis of accounting.

AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0
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: 2019 7/2018 - 6/2019

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

← Enter grading in column 'E' and 'J' →

	Grade	Value	Unit	Pcnt	Value	Unit
Volume from own sources:	9	165.335	MG/Yr	0		MG/Yr
Water imported:	n/a		MG/Yr	0		MG/Yr
Water exported:	n/a		MG/Yr	0		MG/Yr
WATER SUPPLIED:		165.335	MG/Yr			

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

AUTHORIZED CONSUMPTION

Billed metered:	9	132.493	MG/Yr	1.25%		MG/Yr
Billed unmetered:	10	0.006	MG/Yr	0		MG/Yr
Unbilled metered:	9	26.426	MG/Yr	0		MG/Yr
Unbilled unmetered:	5	2.067	MG/Yr	0		MG/Yr
AUTHORIZED CONSUMPTION:		160.992	MG/Yr			

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

Click here: for help using option buttons below

Use buttons to select percentage of water supplied OR value

Pcnt: 1.25% Value: MG/Yr

Pcnt: 0.25% Value: MG/Yr

Pcnt: 1.00% Value: MG/Yr

Pcnt: 0.25% Value: MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

Apparent Losses

Unauthorized consumption:	5	0.413	MG/Yr		
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	8	1.605	MG/Yr		
Systematic data handling errors:	5	0.331	MG/Yr		
Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed					
Apparent Losses:	5	2.350	MG/Yr		

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	19	1.994	MG/Yr		
WATER LOSSES:	19	4.343	MG/Yr		

NON-REVENUE WATER

NON-REVENUE WATER: **32.836** 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:	28	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: **65.0** psi

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

COST DATA

Total annual cost of operating water system:	9	\$679,526	\$/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 <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 86 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**

WAS v5.0
American Water Works Association
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Water Audit Report for:

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 86 out of 100 ***

System Attributes:

Apparent Losses:	<input type="text" value="2.350"/>	MGYr
+ Real Losses:	<input type="text" value="1.994"/>	MGYr
= Water Losses:	<input type="text" value="4.343"/>	MGYr
<input type="text" value="2"/> Unavoidable Annual Real Losses (UARL):	<input type="text" value="See limits in definition"/>	MGYr
Annual cost of Apparent Losses:	<input type="text" value="\$9,822"/>	
Annual cost of Real Losses:	<input type="text" value="\$1,465"/>	

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:	<input type="text" value="19.9%"/>	
	Non-revenue water as percent by cost of operating system:	<input type="text" value="4.7%"/>	
Operational Efficiency:	Apparent Losses per service connection per day:	<input type="text" value="9.20"/>	gallons/connection/day
	Real Losses per service connection per day:	<input type="text" value="N/A"/>	gallons/connection/day
	Real Losses per length of main per day*:	<input type="text" value="218.47"/>	gallons/mile/day
	Real Losses per service connection per day per psi pressure:	<input type="text" value="N/A"/>	gallons/connection/day/psi
From Above, Real Losses = Current Annual Real Losses (CARL):		<input type="text" value="1.99"/>	million gallons/year
<input type="text" value="2"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:		<input type="text" value=""/>	

* 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, 2019, 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 December 15, 2019.

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 in the Schedule of Findings and Responses, I identified deficiencies in internal control that I consider to be material weaknesses (2019-001 Lack of Separation of Duties and 2019-002 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 in the Schedule of Findings and Responses (2019-001 and 2019-002) to be material weaknesses.

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*.

Response to Findings

The City of Clifton’s response to the finding identified in the audit is described in the Schedule of Findings and Responses. 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.

Joh R Poole, CPA

December 15, 2019

CITY OF CLIFTON, TENNESSEE

Schedule of Findings and Responses

June 30, 2019

2019-001 - Separation of Duties

Condition: The City of Clifton currently has three employees that work in performing the majority of the accounting functions for the City. Due to only having three employees performing the accounting transactions, there is currently an inadequate segregation of duties.

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

Cause: The City has a limited number of office employees to provide for a proper division of duties.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner along with the possibility of fraud or misappropriation of assets increases when accounting functions are not adequately segregated.

Recommendation: For adequate separation of duties, the employee who writes receipts, prepares and makes bank deposits, or writes checks should neither reconcile bank statements nor post to the cash receipts and disbursements journals.

Response: "We agree that the staff size will not allow the City to segregate duties to the optimum level desired. There are only three employees working in the department so it is virtually impossible to segregate duties unless more staff could be hired and due to the finances of our small City, we could not financially hire additional office help."

2019-002 - Journal Entries

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

Cause: The City does not have adequate staffing for this accounting to occur.

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

CITY OF CLIFTON, TENNESSEE

Schedule of Disposition of Prior Year Comments

June 30, 2019

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2018 – 001	Separation of Duties	Repeated

The prior year finding number is 2001-001. The current year finding number is 2019-001.

2018 – 002	Journal Entries	Repeated
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The original finding number was 2017-002. The current finding number is 2019-002.

