



Independent Auditors' Report

And Financial Statements

For The Year Ended

June 30, 2016

City of Russell Springs, Kentucky
Table of Contents

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	14
Statement of Net Position - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Notes to the Basic Financial Statements	18-35
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability	36
Schedule of the City's Pension Contributions	37

City of Russell Springs, Kentucky
Table of Contents

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39
Schedule of Findings and Responses	40-41

Independent Auditors' Report

To the Members of the City Council
City of Russell Springs, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the City of Russell Springs, Kentucky, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and pension schedules on pages 36 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016 on our consideration of the City of Russell Springs, Kentucky's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Russell Springs, Kentucky's internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC

November 7, 2016

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

As management of the City of Russell Springs, we offer readers of the City of Russell Springs' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- In FY 2016, the City increased Water and Sewer rates charged to customers for services.
- Health insurance expense increased approximately 3% from the previous fiscal year.
- Retirement rates for fiscal year FY 15-16 were 17.06% for non-hazardous and 32.95% for hazardous, a slight decrease from the previous fiscal year.
- The City made several capital purchases including leasehold improvements to City Hall, police vehicles, and a new waste water flow meter.
- Property tax rate for 2015 remained at .170 per \$100 of assessed property value.
- Cash available for use to pay the City's obligations as of June 30, 2016 is approximately \$1.8 million which is consistent with the prior year.
- The City's total General Fund revenues were over budget by approximately \$386,000 and expenses were over budget by approximately \$390,000.
- The City's proportionate share of the CERS net pension liability increased approximately \$600,000 from the previous fiscal year, from approximately \$1,666,000 to \$2,265,000.
- The City's only new debt in FY 2016 consisted of the financing of two police vehicles.
- In FY 2016, the City approved an Alcoholic Beverage Control ordinance.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Russell Springs' basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements are designed to provide readers with a broad overview of the City of Russell Springs' finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Russell Springs' assets and deferred outflows and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Russell Springs is improving or deteriorating.

The statement of activities presents information showing how the City of Russell Springs' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

The government-wide financial statements outline functions of the City of Russell Springs that are principally supported by various taxes, licenses and permits. The governmental activities of the City include fire, safety, highways, streets, sanitation, parks and miscellaneous services. Property taxes, licenses and permits also support fixed assets and related debt. The government-wide financial statements can be found on pages 8-9 of this report.

FUND FINANCIAL STATEMENTS - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Russell Springs uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds. The two proprietary funds are the water and sewer fund and the senior citizens fund. All other activities of the City are included in the governmental funds. The basic fund financial statements can be found on pages 10-17 of this report.

NOTES TO THE FINANCIAL STATEMENTS - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-35 of this report.

The City of Russell Springs' financial position is the product of several financial transactions including the net results of the activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, the depreciation of capital assets and changes in the net pension liability.

THE CITY AS A WHOLE

**Table 1
Net Position (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,325	\$ 2,312	\$ 1,258	\$ 988	\$ 3,583	\$ 3,300
Capital assets	1,384	1,347	9,757	10,099	11,141	11,446
Total assets	<u>3,709</u>	<u>3,659</u>	<u>11,015</u>	<u>11,087</u>	<u>14,724</u>	<u>14,746</u>
Deferred outflows of resources	363	110	125	44	488	154
Current liabilities	179	125	527	468	706	593
Non-current liabilities	1,754	1,303	3,174	3,125	4,928	4,428
Total liabilities	<u>1,933</u>	<u>1,428</u>	<u>3,701</u>	<u>3,593</u>	<u>5,634</u>	<u>5,021</u>
Deferred inflows of resources	-	96	-	46	-	142
Net position:						
Invested in capital assets net of debt	1,176	1,187	7,140	7,373	8,316	8,560
Restricted	-	-	494	420	494	420
Unrestricted	964	1,058	(196)	(301)	768	757
Total net position	<u>\$ 2,140</u>	<u>\$ 2,245</u>	<u>\$ 7,438</u>	<u>\$ 7,492</u>	<u>\$ 9,578</u>	<u>\$ 9,737</u>

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

The General Government received \$10,955 for a new HVAC system for the Senior Citizens building. Russell Springs Volunteer Fire Department received their annual payment of \$10,000 from the Russell County Fiscal Court. Chalybeate Park received a new and updated look with additional dirt, tiles, benches and new landscaping. Capital Assets increased due to the purchase of a 2016 Ford F-150 and a 2016 Chevrolet Silverado. The vehicles were financed through a bank with a two-year maturity date.

The increase in the water and sewer rates in FY 2016 has caused cash and receivables to increase at year end compared to the previous year. The water and sewer fund made debt service payments including principal and interest of approximately \$216,000.

Table 2
Changes in Net Position (in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for service	\$ -	\$ -	\$ 2,816	\$ 2,168	\$ 2,816	\$ 2,168
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	-	14	-	14
General revenues:						
Taxes	1,297	1,228	-	-	1,297	1,228
Licenses and permits	795	819	-	-	795	819
Fines and forfeits	5	5	-	-	5	5
Intergovernmental programs	131	142	-	47	131	189
Interest revenue	-	-	1	1	1	1
Other revenues	94	256	69	54	163	310
Gain on sale of fixed assets	-	-	-	-	-	-
Total revenues	2,322	2,450	2,886	2,284	5,208	4,734
Program expenses:						
General government	608	526	-	-	608	526
Police	903	686	-	-	903	686
Fire	76	76	-	-	76	76
Highways and streets	454	346	-	-	454	346
Parks	258	256	-	-	258	256
Interest on long-term debt	4	-	-	-	4	-
Unallocated depreciation	124	105	-	-	124	105
Water and sewer	-	-	2,902	2,489	2,902	2,489
Capital outlay	-	-	-	-	-	-
Senior citizens	-	-	38	43	38	43
Total expenses	2,427	1,995	2,940	2,532	5,367	4,527
Excess (deficiency) before transfers	(105)	455	(54)	(248)	(159)	207
Transfers	-	(26)	-	26	-	-
Increase (decrease) in net position	\$ (105)	\$ 429	\$ (54)	\$ (222)	\$ (159)	\$ 207

City of Russell Springs, Kentucky
 Management's Discussion and Analysis (MD&A)
 June 30, 2016

All city employees received pay increases. Occupational payroll taxes increased by 3.5% and Franchise Fees decreased by 6%. In FY 2015, the City received other revenues such as timber sales and refunds from KU that did not reoccur in FY 2016. Police expenditures increased 32% as a result of increase in salaries and wages and employee benefits from the increase in the number of positions. Highway and streets increased 31% related to streets repairs.

Water and Sewer revenue increased 29% as a result of an increase in the service rates. Expenses increased by 17% primarily as increase in water and sewer charges from Jamestown Utilities.

CAPITAL ASSETS

Russell Springs Police Department purchased a 2016 Ford F-150 4X4 and General Government purchased a 2016 Chevrolet Silverado 1500 LT. Epperson Road, Womack Road and F. Grider Road received new asphalt, along with several roads receiving repair work and new tiles. The water and sewer fund began construction of a new mag flow meter to measure waste water. Normal annual depreciation was expensed in the government-wide financial statements.

**Table 3
 Capital Assets (in Thousands)**

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Autos & Trucks	\$ 908	\$ 846	\$ 294	\$ 294	\$ 1,202	\$ 1,140
Buildings	1,341	1,341	1,106	1,106	2,447	2,447
Fixtures and Equipment	305	285	616	569	921	854
Building Improvements	374	295	-	-	374	295
Land and Improvements	100	100	286	286	386	386
Water and Sewer Systems	-	-	16,044	15,979	16,044	15,979
Totals	\$ 3,028	\$ 2,867	\$ 18,346	\$ 18,234	\$ 21,374	\$ 21,101

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2016

DEBT

Rural Development requires interest payments by April 1 and interest and principal payments by October 1, of each year. KIA loan require payments in June and December. The new fire truck payment is due each October at First National Bank. Two annual payments will be made on 7/1/2016 and 7/1/2017 for the 2016 Ford and the 2016 Chevy Trucks to First National Bank.

**Table 4
Outstanding Debt at Year-End (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Notes Payable	\$ 208	\$ 160	\$ 616	\$ 651	\$ 824	\$ 811
Leases Payable	-	-	-	-	-	-
Revenue Bonds	-	-	2,002	2,076	2,002	2,076
Totals	\$ 208	\$ 160	\$ 2,618	\$ 2,727	\$ 2,826	\$ 2,887

COMMENTS ON BUDGET COMPARISONS

- Raises were given to all employees
- Water and Sewer Revenue along with Penalties and Taps increased from FY 14-15
- Payroll taxes increased and franchise fees decreased from FY 14-15
- Retirement Rates decreased from non-hazardous being 17.67% to 17.06% and hazardous being 34.31% to 32.95%

THE CITY'S FUNDS

More utility customers continue to use credit cards to pay their utility bill. The Community Center remains to be a wonderful rental asset for the City. The City has a new bank account (Alcohol Regulatory Fees) that will assist with allowable costs and expenses related to the sale of alcohol beverages.

Contacting the City of Russell Springs

This financial report is designed to provide citizens, creditors and other users with an overview of the City of Russell Springs, Kentucky's finances, fiscal practices and responsibility. If you have questions or need additional information please contact the City Clerk @ P.O. Box 247, Russell Springs, KY 42642-0247.

City of Russell Springs, Kentucky
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 1,829,373	\$ 350,002	\$ 2,179,375
Investments	3,953	-	3,953
Receivables:			
Customers	-	356,839	356,839
Taxes	387,125	-	387,125
Unbilled	-	123,519	123,519
Allowance	-	(10,000)	(10,000)
Other	777	-	777
Inventory	-	46,223	46,223
Internal balances	103,503	(103,503)	-
Restricted assets:			
Cash	-	494,922	494,922
Total Current Assets	<u>2,324,731</u>	<u>1,258,002</u>	<u>3,582,733</u>
Noncurrent Assets			
Capital assets	3,028,497	18,345,787	21,374,284
Less: accumulated depreciation	(1,644,150)	(8,588,355)	(10,232,505)
Net capital assets	1,384,347	9,757,432	11,141,779
Restricted Cash	-	-	-
Total Noncurrent Assets	<u>1,384,347</u>	<u>9,757,432</u>	<u>11,141,779</u>
Total Assets	<u>3,709,078</u>	<u>11,015,434</u>	<u>14,724,512</u>
Deferred Outflows of Resources			
Pension contributions - current year	363,350	124,555	487,905
Liabilities and Net Position			
Liabilities			
Current Liabilities			
Revenue bonds payable	-	82,400	82,400
Notes payable	45,783	35,214	80,997
Accounts payable	72,878	151,540	224,418
Accrued payroll and payroll taxes	35,022	129	35,150
Customer deposits payable	-	225,223	225,223
Accrued vacation	24,921	9,221	34,142
Accrued interest payable	-	23,660	23,660
Total Current Liabilities	<u>178,603</u>	<u>527,387</u>	<u>705,990</u>
Non-current Liabilities			
Revenue bonds payable	-	1,919,100	1,919,100
Notes payable	162,519	580,703	743,222
Net pension liability	1,591,176	673,974	2,265,150
Total non-current liabilities	<u>1,753,695</u>	<u>3,173,777</u>	<u>4,927,472</u>
Total Liabilities	<u>1,932,298</u>	<u>3,701,164</u>	<u>5,633,462</u>
Net Position			
Invested in capital assets, net of related debt	1,176,045	7,140,015	8,316,060
Restricted for:			
Debt service	-	293,974	293,974
Other purposes	-	200,948	200,948
Unrestricted	964,085	(196,112)	767,973
Total Net Position	<u>\$ 2,140,130</u>	<u>\$ 7,438,825</u>	<u>\$ 9,578,955</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Activities
For the Year Ended June 30, 2016

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
General government	\$ 607,566	\$ -	\$ -	\$ -	\$ (607,566)	\$ -	\$ (607,566)
Police	903,381	-	-	-	(903,381)	-	(903,381)
Fire	75,925	-	-	-	(75,925)	-	(75,925)
Highways and streets	454,090	-	-	-	(454,090)	-	(454,090)
Culture and Recreation	258,149	-	-	-	(258,149)	-	(258,149)
Interest on long-term debt	4,234	-	-	-	(4,234)	-	(4,234)
Unallocated depreciation	123,699	-	-	-	(123,699)	-	(123,699)
Total Governmental Activities	<u>2,427,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,427,044)</u>	<u>-</u>	<u>(2,427,044)</u>
Business-Type Activities							
Water and Sewer	2,902,261	2,800,772	-	-	-	(101,489)	(101,489)
Senior Citizens	37,897	15,600	-	-	-	(22,297)	(22,297)
Total Business-Type Activities	<u>2,940,158</u>	<u>2,816,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,786)</u>	<u>(123,786)</u>
Total City	<u>\$ 5,367,202</u>	<u>\$ 2,816,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,427,044)</u>	<u>(123,786)</u>	<u>(2,550,830)</u>
General Revenues (Expenses):							
Taxes					1,296,927	-	1,296,927
Licenses and permits					795,445	-	795,445
Fines					4,995	-	4,995
Intergovernmental programs					131,167	-	131,167
Interest revenue					-	977	977
Other revenues					93,810	69,036	162,846
Total General Revenues (Expenses)					<u>2,322,344</u>	<u>70,013</u>	<u>2,392,357</u>
Change in Net Position					(104,700)	(53,773)	(158,473)
Net Position - Beginning					<u>2,244,830</u>	<u>7,492,598</u>	<u>9,737,428</u>
Net Position - Ending					<u>\$ 2,140,130</u>	<u>\$ 7,438,825</u>	<u>\$ 9,578,955</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Balance Sheet - Governmental Funds
June 30, 2016

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,790,200	31,169	8,004	\$ 1,829,373
Investments	3,953	-	-	3,953
Receivables				
Taxes receivable	387,125	-	-	387,125
Other receivables	777	-	-	777
Due from other funds	103,503	-	-	103,503
Total Assets	\$ 2,285,558	\$ 31,169	\$ 8,004	\$ 2,324,731
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 72,878	\$ -	\$ -	\$ 72,878
Accrued vacation	24,921	-	-	24,921
Payroll taxes payable	27,626	-	-	27,626
Accrued payroll	7,396	-	-	7,396
Total Liabilities	132,820	-	-	132,820
Fund Balances				
Restricted	-	31,169	8,004	39,173
Unassigned	2,152,738	-	-	2,152,738
Total Fund Balances	2,152,738	31,169	8,004	2,191,911
Total Liabilities and Fund Balances	\$ 2,285,558	\$ 31,169	\$ 8,004	\$ 2,324,731

City of Russell Springs, Kentucky
 Reconciliation of the Balance Sheet - Governmental Funds
 to the Statement of Net Position
 June 30, 2016

Total Fund Balance Per Fund Financial Statements	\$ 2,191,911
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	1,384,347
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Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:

Deferred outflows related to pension	363,350
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Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Notes payable	(208,302)	
Net pension liability	<u>(1,591,176)</u>	<u>(1,799,478)</u>

Net Position of Governmental Activities	<u><u>\$ 2,140,130</u></u>
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City of Russell Springs, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
June 30, 2016

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Taxes	\$ 1,296,927	\$ -	\$ -	\$ 1,296,927
Licenses and permits	795,445	-	-	795,445
Fines and forfeits	4,995	-	-	4,995
Intergovernmental programs	83,163	48,004	-	131,167
Miscellaneous income	93,810	-	-	93,810
Total Revenue	<u>2,274,340</u>	<u>48,004</u>	<u>-</u>	<u>2,322,344</u>
Expenditures				
General government	645,432	-	-	645,432
Police	927,670	-	1,496	929,166
Fire	75,925	-	-	75,925
Highways and streets	398,051	51,659	-	449,710
Culture and recreation	274,568	-	-	274,568
Debt service	18,461	-	-	18,461
Total Expenditures	<u>2,340,107</u>	<u>51,659</u>	<u>1,496</u>	<u>2,393,262</u>
Excess of Revenues Over (Under) expenditures	<u>(65,767)</u>	<u>(3,655)</u>	<u>(1,496)</u>	<u>(70,918)</u>
Other Financing Uses				
Proceeds from long-term debt	62,057	-	-	62,057
Total Other Financing Uses	<u>62,057</u>	<u>-</u>	<u>-</u>	<u>62,057</u>
Net Change in Fund Balance	(3,710)	(3,655)	(1,496)	(8,861)
Fund Balances July 1, 2015	<u>2,156,448</u>	<u>34,824</u>	<u>9,500</u>	<u>2,200,772</u>
Fund Balances June 30, 2016	<u>\$ 2,152,738</u>	<u>\$ 31,169</u>	<u>\$ 8,004</u>	<u>\$ 2,191,911</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net Change in Total Fund Balances Per Fund Financial Statements \$ (8,861)

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

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense for the year. 37,362

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This is the amount related to the net pension liability. (85,371)

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. (47,830)

Change in Net Position of Governmental Activities \$ (104,700)

City of Russell Springs, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Budget and Actual - General Fund
June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 955,000	\$ 1,111,409	\$ 1,296,927	\$ 185,518
Licenses and permits	595,200	511,039	795,445	284,406
Fines and forfeits	-	-	4,995	4,995
Intergovernmental programs	28,050	55,887	83,163	27,276
Miscellaneous income	140,100	209,617	93,810	(115,807)
Total Revenue	<u>1,718,350</u>	<u>1,887,952</u>	<u>2,274,340</u>	<u>386,388</u>
Expenditures				
General Government	481,534	548,152	645,432	(97,280)
Police	770,917	834,223	927,670	(93,447)
Fire	90,182	85,692	75,925	9,767
Highways and streets	239,007	234,367	398,051	(163,684)
Parks	266,507	247,340	274,568	(27,228)
Debt service	-	-	18,461	(18,461)
Total Expenditures	<u>1,848,147</u>	<u>1,949,774</u>	<u>2,340,107</u>	<u>(390,333)</u>
Excess of Revenues Over (Under) expenditures	<u>(129,797)</u>	<u>(61,822)</u>	<u>(65,767)</u>	<u>(3,945)</u>
Other Financing Uses				
Proceeds from long-term debt	-	-	62,057	62,057
Total Other Financing Uses	<u>-</u>	<u>-</u>	<u>62,057</u>	<u>62,057</u>
Net Change in Fund Balance	(129,797)	(61,822)	(3,710)	58,112
Fund Balance July 1, 2015	<u>2,156,448</u>	<u>2,156,448</u>	<u>2,156,448</u>	<u>-</u>
Fund Balance June 30, 2016	<u>\$ 2,026,651</u>	<u>\$ 2,094,626</u>	<u>\$ 2,152,738</u>	<u>\$ 58,112</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2016

	Water and Sewer <u>Fund</u>	Senior Citizens <u>Fund</u>	Total Proprietary <u>Funds</u>
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 284,081	\$ 65,921	\$ 350,002
Receivables:			
Customers	356,839	-	356,839
Unbilled	123,519	-	123,519
Allowance	(10,000)	-	(10,000)
Inventory	46,223	-	46,223
Restricted Assets:			
Cash	494,922	-	494,922
Total Current Assets	<u>1,295,584</u>	<u>65,921</u>	<u>1,361,505</u>
Noncurrent Assets			
Capital assets, net of depreciation	8,800,763	956,669	9,757,432
Total Noncurrent Assets	<u>8,800,763</u>	<u>956,669</u>	<u>9,757,432</u>
Total Assets	<u>10,096,347</u>	<u>1,022,590</u>	<u>11,118,937</u>
Deferred Outflows of Resources			
Pension contributions - current year	124,555	-	124,555
Liabilities and Net Pension			
Liabilities			
Current Liabilities			
Revenue bonds payable	82,400	-	82,400
Notes payable	35,214	-	35,214
Accounts payable	151,540	-	151,540
Accrued payroll and payroll taxes	129	-	129
Customer deposits payable	225,223	-	225,223
Accrued vacation	9,221	-	9,221
Due to other funds	87,912	15,591	103,503
Accrued interest payable	23,660	-	23,660
Total Current Liabilities	<u>615,299</u>	<u>15,591</u>	<u>630,890</u>
Noncurrent Liabilities			
Revenue bonds payable	1,919,100	-	1,919,100
Notes payable	580,703	-	580,703
Net pension liability	673,974	-	673,974
Total Noncurrent Liabilities	<u>3,173,777</u>	<u>-</u>	<u>3,173,777</u>
Total Liabilities	<u>3,789,076</u>	<u>15,591</u>	<u>3,804,667</u>
Net Position			
Invested in capital assets, net of related debt	6,183,346	956,669	7,140,015
Restricted for:			
Debt service	293,974	-	293,974
Other purposes	200,948	-	200,948
Unrestricted	(246,442)	50,330	(196,112)
Total Net Position	<u>\$ 6,431,826</u>	<u>\$ 1,006,999</u>	<u>\$ 7,438,825</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Operating Revenues			
Charges for services	\$ 2,800,772	\$ 15,600	\$ 2,816,372
Total Operating Revenues	<u>2,800,772</u>	<u>15,600</u>	<u>2,816,372</u>
Operating Expenses			
Salaries	329,259	-	329,259
Payroll taxes	26,222	-	26,222
Motor fuels	29,552	-	29,552
Depreciation and amortization	416,798	37,897	454,695
Maintenance	41,874	-	41,874
Utilities	103,774	-	103,774
Employee benefits	199,075	-	199,075
Insurance	81,638	-	81,638
Supplies	155,545	-	155,545
Office supplies	2,227	-	2,227
Professional fees	37,501	-	37,501
Advertising and printing	2,027	-	2,027
Lab analysis	6,660	-	6,660
Water purchases	688,477	-	688,477
Sanitation	560,666	-	560,666
Travel and lodging	125	-	125
Dues and subscriptions	425	-	425
Uniforms	3,784	-	3,784
Miscellaneous	2,999	-	2,999
Sales tax	31,273	-	31,273
Utility tax	48,378	-	48,378
Communications and postage	27,345	-	27,345
Safety equipment	386	-	386
Total Operating Expenses	<u>2,796,010</u>	<u>37,897</u>	<u>2,833,907</u>
Operating Income (Loss)	<u>4,762</u>	<u>(22,297)</u>	<u>(17,535)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental programs	-	-	-
Interest revenue	977	-	977
Interest expense	(106,251)	-	(106,251)
Miscellaneous revenue	69,036	-	69,036
Total Nonoperating Revenues (Expenses)	<u>(36,238)</u>	<u>-</u>	<u>(36,238)</u>
Change in Net Position	<u>(31,476)</u>	<u>(22,297)</u>	<u>(53,773)</u>
Net Position, July 1, 2015	<u>6,463,302</u>	<u>1,029,296</u>	<u>7,492,598</u>
Net Position, June 30, 2016	<u>\$ 6,431,826</u>	<u>\$ 1,006,999</u>	<u>\$ 7,438,825</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Cash Flows -
Proprietary Funds
For the Year Ended June 30, 2016

	Water & Sewer <u>Fund</u>	Senior Citizens <u>Fund</u>	Total Proprietary <u>Funds</u>
Cash Flows From Operating Activities			
Cash receipts from customers	\$ 2,676,156	\$ 15,600	\$ 2,691,756
Cash payments to suppliers for goods or services	(1,767,843)	-	(1,767,843)
Cash payments to employees for services	(521,197)	-	(521,197)
Net Cash Provided by Operating Activities	<u>387,116</u>	<u>15,600</u>	<u>402,716</u>
Cash Flows From Capital Financing Activities			
Other cash receipts	69,036		69,036
Cash paid for interest	(106,251)		(106,251)
Payments of principal on long-term debt	(109,522)		(109,522)
Net Cash Used in Capital Financing Activities	<u>(146,737)</u>	<u>-</u>	<u>(146,737)</u>
Cash Flows From Investing Activities			
Purchase of capital assets	(112,063)	-	(112,063)
Receipt of interest income	977	-	977
Net Cash Used by Investing Activities	<u>(111,086)</u>	<u>-</u>	<u>(111,086)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	129,293	15,600	144,893
Cash and Cash Equivalents July 1, 2015	<u>649,710</u>	<u>50,321</u>	<u>700,031</u>
Cash and Cash Equivalents June 30, 2016	<u>\$ 779,003</u>	<u>\$ 65,921</u>	<u>\$ 844,924</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 4,762	\$ (22,297)	\$ (17,535)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	416,798	37,897	454,695
(Increase) Decrease in:			
Accounts receivable	(124,616)	-	(124,616)
Inventory	(848)	-	(848)
Deferred outflows of resources	(80,080)	-	(80,080)
Increase (Decrease) in:			
Accounts payable	47,416	-	47,416
Customer deposits payable	11,479	-	11,479
Accrued payroll and payroll taxes	(1,624)	-	(1,624)
Accrued vacation	(2,813)	-	(2,813)
Accrued interest	(1,234)	-	(1,234)
Net pension liability	163,615	-	163,615
Deferred inflows of resources	(45,739)	-	(45,739)
Cash Provided by Operating Activities	<u>\$ 387,116</u>	<u>\$ 15,600</u>	<u>\$ 448,455</u>
Cash Reconciliation:			
Cash and cash equivalents	\$ 284,081	\$ 65,921	\$ 350,002
Restricted cash	494,922	-	494,922
Cash and Cash Equivalents June 30, 2016	<u>\$ 779,003</u>	<u>\$ 65,921</u>	<u>\$ 844,924</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Notes to Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies

The City of Russell Springs (“City”) operates under a City Council form of government and has budgetary authority over the following functional areas: public safety, public service, water and sewer, and general administration, and for financial reporting purposes, all funds and account groups that are controlled by or dependent on the City, as determined on the basis of budget adoption, management oversight responsibility, and taxing authority.

A review of other agencies was performed in order to determine if they met the criteria as discussed above for inclusion in the City's financial statements. City management determined that no other agencies should be in the City's financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Property taxes, state-shared revenue, licenses, insurance premium taxes, occupational taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

1. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. The Municipal Road Aid and Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for a specified purpose.

The City reports the following major proprietary funds:

1. The Water and Sewer Fund is used to account for water, sewer, and sanitation activities.
2. The Senior Citizens Fund is used to account for activity related to the rental of land for use as the site for a senior citizens building.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue 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 revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Budget Basis of Accounting

The budget basis of accounting is consistent with generally accepted accounting principles. The type of budget is an appropriated budget and said budget is adopted by ordinance by the City Council. The budget is adopted on an annual basis. The budget presented for the General Fund was amended during the year and adopted by ordinance by the City Council.

The general fund budget is prepared on a basis consistent with generally accepted accounting principles. For the year ended June 30, 2016, expenditures exceeded appropriations in the General Fund by \$390,333. These expenditures were funded by greater than anticipated revenues.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Investments

Investments consist of a certificate of deposit with an original maturity date of greater than 90 days.

Inventory

Inventory consists of water and sewer maintenance and repair parts and supplies. Inventory amounts are stated at cost.

Accounts Receivable - Enterprise Fund

The Water and Sewer accounts receivable are for services to customers. If a customer fails to pay within 25 days after the prior month's bill, their water service is terminated and their deposit is applied to the unpaid bill. Any unpaid balance after applying the deposit is fully reserved. Unbilled receivables represent the water and sewer usage from the end of the last billing cycle in June through the last day of the fiscal year. Typically, the billing cycle is cut off on the 15th of the month and the usage from then until the last day of the month is not billed until the following month.

Allowance for Doubtful Accounts

The City has provided for an allowance for doubtful accounts for the year ended June 30, 2016 based upon the City's estimate of the collectability of accounts receivable.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not capitalized. All reported capital assets and improvements are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Deferred Outflows and 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 element, deferred outflows of resources, represents a consumption of resources of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows and Inflows of Resources (Continued)

The City has four items that qualify for reporting in this category. These include the City's pension contributions made subsequent to the measurement date, differences between expected and actual experience, net difference between projected and actual investment earnings on pension plan investments and changes in assumptions.

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 will not be recognized as an inflow of resources (revenue) until that time. The City has no items that qualify for reporting in this category at June 30, 2016. Refer to the Pension Liability, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension in Note 8, Retirement Plan.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources.

However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

City employees are allowed to accumulate sick leave and vacation time based on the City's approved policies. Regular full-time employees (40 hours per week) received 8 hours of sick time per month. Sick leave may be accrued up to a maximum of 480 hours. Vacation leave shall be taken during the 12-month period immediately following the date it is credited and cannot be carried forward into the next year unless approved in advance by the Mayor.

Pensions

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 1 – Summary of Significant Accounting Policies (Continued)

Interfund Balances

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general-purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The City maintains their cash and investment accounts with local banks. Cash consists of direct deposit accounts and investments consist of a certificate of deposit. At June 30, 2016 the carrying amount of unrestricted cash and investments was \$2,183,328 and the bank balance was \$2,200,382. Additional cash information is presented in Notes 4 and 5.

Note 3 - Restricted Cash

The City has restricted cash to satisfy bond issue requirements. The City also has restricted cash accounts related to their use for bond payments and capital expenditures. These same cash accounts are considered a restriction of net assets.

Note 4 – Kentucky Revised Statute

As of June 30, 2016, \$2,691,351 of The City's cash balance at the bank was covered by federal depository, depository bond insurance and securities pledged as collateral on behalf of the City. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the federal depository insurance or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS.66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 5 - Deposits

Custodial Credit Risk-Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$2,375,430 of the City's bank balance of \$2,691,351 was exposed to custodial credit risk as described below. \$315,921 of the City's deposits was covered by Federal depository insurance at June 30, 2016.

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	2,375,430
Uninsured and collateral held by pledging bank's trust department not in the City's name	-
Total	<u><u>\$ 2,375,430</u></u>

Note 6 – Revenue Bonds Payable

At June 30, 2016, the Water and Sewer Fund had the following bonds payable outstanding:

<u>Description</u>	<u>Interest Rate</u>	<u>Series</u>	<u>Amount</u>
Revenue Bonds	5.00%	1981	111,000
Revenue Bonds	5.00%	1986	136,000
Revenue Bonds	4.50%	1996 A	431,000
Revenue Bonds	4.50%	1996 B	963,000
Revenue Bonds	4.50%	2001	255,500
Revenue Bonds	4.00%	2004	<u>105,000</u>
 Total payable at par			 2,001,500
 Less: current portion payable from restricted assets			 <u>82,400</u>
 Total long-term portion			 <u><u>\$ 1,919,100</u></u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 6 – Revenue Bonds Payable (Continued)

A schedule of the required principal and interest payments on the aforementioned bonds payable follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	82,400	89,097
2018	84,600	80,568
2019	89,900	76,567
2020	94,100	72,343
2021-2025	433,500	301,584
2026-2030	448,600	205,146
2031-2035	544,800	98,849
2036-2040	161,200	16,528
2041-2044	62,400	1,433
 Total	 <u>\$ 2,001,500</u>	 <u>\$ 942,115</u>

Principal payments are due on the above aforementioned bonds on October 1st of each year with interest being due on April 1st and October 1st.

The bond ordinance for each series is consistent in that certain restricted accounts are required to be established. A summary of the required accounts and their significant provisions in order of priority follows:

Water and Sewer Interest Sinking Fund

Amounts sufficient to pay the current principal and interest requirements of the outstanding revenue bonds are to be set aside monthly in this account. The monthly payment is to be equal to one-sixth of the next interest payment and one-twelfth of the next principal payment.

Water and Sewer Maintenance and Operation Fund

Amounts sufficient to pay the proper operation and maintenance expenses of the system, including the expenses of carrying sufficient insurance are to be set aside monthly in this account plus a reserve equal to three months' expenses are established and maintained and this account as reflected in the accompanying financial statements is not restricted.

Water and Sewer System Reserve Fund

Amounts sufficient to pay an amount equal to not less than the maximum annual principal and interest requirements of any one year are to be set aside in this account. The City currently has combined the Water and Sewer Interest Sinking Fund account with this account.

Note 6 – Bonds Payable (Continued)

Water and Sewer Replacement Fund

Monthly deposits of not less than \$1,340 after the transfers required from the three previous funds so long as the bonds remain outstanding which shall be utilized in making good any depreciation in the properties of said System and in financing extensions, additions or improvements to the System. The City further agrees to deposit the proceeds from the sale of any equipment no longer usable or needed, all fees or charges collected from potential customers and any proceeds received from property damage insurance not immediately used to replace the damaged or destroyed property. These funds are to be used for paying the cost of unusual or extraordinary maintenance, repairs, renewals, replacements and the cost of constructing additions and improvements to the System which will either enhance its revenue-producing capacity or provide a higher degree of service. However, monies in the fund shall be available for the principal and interest requirements on the bonds if for any reason and whenever sufficient funds are not available in the Sinking Fund or Reserve Fund.

If all transfers have been made in required accounts which are cumulative, the balance in the Revenue Fund, if any, shall within sixty days following the close of the fiscal year be utilized to retire any outstanding obligations against the system or transfer additional funds to the Replacement Fund; provided, however, that no such transfer shall be made to the Replacement Fund unless there shall have been first accumulated in the Operation and Maintenance Fund an amount equal to the cost of operating and maintaining the System during the remainder of the fiscal year and the succeeding fiscal year or pay debt service on any outstanding junior and subordinate obligations of the System.

Pledged Revenues

The City reports revenues pursuant to GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Pledged revenues of the City are related to water system revenues.

The City has pledged future water customer revenues, net of specified operating expenses to repay water system revenue bonds issued at various dates from 1974 through 2004. Total water customer revenues net of specified operating expenses amounted to \$716,530 for the year ended June 30, 2016. Proceeds from the bonds provided financing for various water projects. The bonds are payable solely from water customer net revenues and are payable at various maturity dates from 2016 through 2044. The total principal and interest remaining to be paid on the bonds as of June 30, 2016 is \$2,943,615. Principal and interest paid for the year ended June 30, 2016 was \$167,735.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 7 – Notes Payable

As of June 30, 2016, the City had the following notes payable outstanding:

Description	Interest Rate	Maturity Date	Amount
Pumper Truck Loan	3.000%	March 2024	\$ 146,245
Manhole Project Loan	1.000%	June 2034	602,918
Vehicle Loan	2.900%	Nov 2018	12,999
Vehicle Loan	3.000%	July 2017	29,988
Vehicle Loan	3.000%	July 2017	<u>32,069</u>
Total			824,219
Less: current portion			<u>80,997</u>
Total long-term portion			<u><u>\$ 743,222</u></u>

A schedule of the required principal and interest payments on the aforementioned notes payable follows:

Year Ended June 30,	Governmental Activities Notes Payable		Business-type Activities Notes Payable	
	Principal	Interest	Principal	Interest
2017	45,783	4,941	35,214	6,268
2018	44,844	4,926	35,513	5,808
2019	14,931	3,530	32,641	5,368
2020	15,378	3,082	30,729	5,048
2021	15,840	2,620	31,037	4,740
Thereafter	<u>71,526</u>	<u>5,585</u>	<u>450,783</u>	<u>32,239</u>
Total	<u><u>\$ 208,302</u></u>	<u><u>\$ 24,684</u></u>	<u><u>\$ 615,917</u></u>	<u><u>\$ 59,471</u></u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 8 – Retirement Plan

Plan Description

The City contributes to the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that cover all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

CERS was created by the Kentucky General Assembly. Benefits are fully vested immediately upon reaching 60 months of service and are established by state statutes. Benefits of CERS members are calculated on the basis of age, final average salary and service credit. CERS also provides survivor, disability and health care coverage. Authority to establish and amend benefits is provided by Kentucky Revised Statutes Section 61.645.

For the fiscal year ended June 30, 2016 the City's covered payroll for hazardous and non-hazardous positions was \$1,073,363.

Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the City have contributed all of the required contributions for the fiscal year ending June 30, 2016.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	17.06%
Hazardous	8.0%-9.0%	32.95%

The City's contribution for the fiscal year ended June 30, 2016 amounted to \$317,487, of which \$245,945 was contributed by the City and \$71,542 by the City's employees.

Membership in CERS consisted of the following at June 30, 2016:

	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	48,112	6,389	54,501
Inactive memberships	72,965	2,142	75,107
Active plan members	<u>82,969</u>	<u>9,188</u>	<u>92,157</u>
	<u>204,046</u>	<u>17,719</u>	<u>221,765</u>
Number of participating employers			<u>1,136</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 8 - Retirement Plan (Continued)

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

At June 30, 2016, the City reported a liability of \$2,265,150 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's proportion was 0.066 percent for hazardous and .029 percent for non-hazardous.

For the year ended June 30, 2016, the City recognized pension expense of \$286,876. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 60,415	\$ -
Differences between expected and actual results	32,477	-
Changes of assumptions	213,730	-
Net difference between projected and actual earnings on Plan investments	17,572	-
Amortization of deferred inflows and outflows	-	-
City's contributions subsequent to the measurement date	163,711	-
Total	\$ 487,905	\$ -

The \$163,711 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ 103,859
2018	103,859
2019	75,494
2020	40,981

The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments and for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date.

Note 8 - Retirement Plan (Continued)

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred.

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Long Term Rate of Return: The long term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long term rate of return assumption including long term historical data, estimates inherent in current market data, and a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10 year horizon and may not be useful in setting the long term rate of return for funding pension plans which covers a longer timeframe.

The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 8 - Retirement Plan (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	
Combined Equity	44	5.40	%
Combined Fixed Income	19	1.50	
Real Return (Diversified Inflation Strategies)	10	3.50	
Real Estate	5	4.50	
Absolute Return (Diversified Hedge Funds)	10	4.25	
Private Equity	10	8.50	
Cash Equivalent	2	-.25	
Total	<u>100</u>		%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. The periods of projected benefit payments for all current plan members were projected through 2117.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	6.5%	\$ 2,895,000
Current discount rate	7.5%	\$ 2,265,150
1% increase	8.5%	\$ 1,734,000

Note 8 - Retirement Plan (Continued)

Changes of assumptions: Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated. The changes are noted below.

- 1) The assumed investment rate of return was decreased from 7.75% to 7.50%.
- 2) The assumed rate of inflation was reduced from 3.50% to 3.25%.
- 3) The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- 4) Payroll growth assumption was reduced from 4.50% to 4.00%.
- 5) The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- 6) For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2014 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 3 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigations is conducted.
- 7) The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

Payables to the pension plan: At June 30, 2016, the City reported a payable including insurance contributions of \$22,119 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 9 – Summary of Fixed Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

<u>Governmental Activities</u>	Beginning Balance	Additions	Deductions	Ending Balance
Autos and trucks	\$ 845,657	\$ 62,057	\$ -	\$ 907,714
Buildings	1,341,352	-	-	1,341,352
Fixtures and equipment	284,834	19,896	-	304,730
Buildings and land improvements	350,795	79,106	-	429,901
Land	44,800	-	-	44,800
Totals at Historical Cost	<u>2,867,438</u>	<u>161,059</u>	<u>-</u>	<u>3,028,497</u>
Less: accumulated depreciation				
Autos and trucks	568,952	55,420	-	624,372
Buildings	631,560	27,676	-	659,236
Fixtures and equipment	211,668	16,344	-	228,012
Buildings and land improvements	108,271	24,259	-	132,530
Total Accumulated Depreciaiton	<u>1,520,451</u>	<u>123,699</u>	<u>-</u>	<u>1,644,150</u>
Governmental Activities Capital Assets - Net	<u>\$ 1,346,987</u>	<u>\$ 37,360</u>	<u>\$ -</u>	<u>\$ 1,384,347</u>
<u>Business-Type Activities</u>				
Autos and trucks	\$ 293,623	\$ -		\$ 293,623
Land and improvements	286,406	-	-	286,406
Buildings	1,106,282	-	-	1,106,282
Fixtures and equipment	569,303	47,360	-	616,663
Water and sewer systems	15,978,110	64,703	-	16,042,813
Totals at Historical Cost	<u>18,233,734</u>	<u>112,063</u>	<u>-</u>	<u>18,345,787</u>
Less: accumulated depreciation				
Autos and trucks	223,264	19,105		242,369
Land and improvements	25,601	6,427	-	32,028
Buildings	294,831	36,876	-	331,707
Fixtures and equipment	439,769	24,920	-	464,689
Water and sewer systems	7,150,195	367,367	-	7,517,562
Total Accumulated Depreciation	<u>8,133,670</u>	<u>454,695</u>	<u>-</u>	<u>8,588,355</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,100,064</u>	<u>\$ (342,632)</u>	<u>\$ -</u>	<u>\$ 9,757,432</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 10 – Property Tax Calendar

Property taxes are a significant portion of the General Fund revenues. The property tax calendar is as follows:

Levy Date	January 1
Collection Date	October 1
Due Date	November 30, 2% discount
Lien Date	January 1 of year following Levy Date

Note 11 – Interfund Receivables and Payables and Transfers

Interfund Receivables and Payables as of June 30, 2016 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 103,503	\$ -
Water and Sewer Fund	-	89,441
Senior Citizens Fund	-	14,062
	\$ 103,503	\$ 103,503

Note 12 – Summary of Long-term Debt

Long-term debt activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Notes Payable	\$ 160,472	\$ 62,057	\$ 14,227	\$ 208,302	\$ 45,783
Governmental Activities:					
Long-term Debt	\$ 160,472	\$ 62,057	\$ 14,227	\$ 208,302	\$ 45,783
Business-type Activities:					
Revenue Bonds	\$ 2,076,400	\$ -	\$ 74,900	\$ 2,001,500	\$ 82,400
Notes Payable	650,539	-	34,622	615,917	35,214
Business-type Activities:					
Long-term Debt	\$ 2,726,939	\$ -	\$ 109,522	\$ 2,617,417	\$ 117,614

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 13 – Insurance and Risk Management

The City is exposed to various forms of loss associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the City's experience to date.

Note 14 – Fund Balance and Net Position

The City follows the provisions of GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in a spendable form, such as inventory or prepaids, or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by a formal action by the City Council ordinance.

Assigned – Amounts that are designated by the Mayor for a specific purpose but are not spendable until a budget or ordinance is passed by the City Council.

Unassigned – All amounts not included in other spendable classifications.

The classifications of the fund balances are included in the Governmental Funds Balance Sheet on page 10. The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

General Fund

The General Fund has unassigned fund balance of \$2,152,738 as of June 30, 2016.

Other Major Funds

The Municipal Road Aid Fund has restricted funds of \$31,169 that are set aside for City road repairs. The Special Revenue Fund has restricted funds of \$8,004 that are obligated by state statute to be spent only for law enforcement narcotics operations.

Net Position

Net position represents the difference between assets and deferred outflows, and liabilities and deferred inflows. Net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws and regulations of other governments.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2016

Note 15 – Related Party Transactions

Three of the City Council Members own businesses in which the City uses as vendors. One operates an auto repair facility which did repairs in the amount of \$922 on City vehicles during the fiscal year ended June 30, 2016. Another Council Member owns a machine shop that repaired heavy equipment for the City in the amount of \$4,361 and the third owns an auto accessories store which sold parts to the City in the amount of \$5,466 during the fiscal year. In addition, the City purchased \$1,544 of medical supplies from a company which employs the spouse of a city employee.

The former Mayor's son is a partner in the law firm which represents the City. The firm was paid \$17,269 during fiscal year ended June 30, 2016 for legal fees.

Note 16 – Contingencies

The City entered into a Wastewater Treatment Contract (the "Contract") with the City of Jamestown, Kentucky in April 1994. In December 2015, in response to a billing dispute with the City of Jamestown, the City approved an Interim Settlement Proposal (the "Proposal") with the City of Jamestown which amended certain terms of the Contract. Terms of the Proposal included the following:

- The City would pay the City of Jamestown for an assumed (estimated) sewer flow of 15,000,000 gallons per month at \$3.45 per 1,000 gallons through June 30, 2016.
- The City would be credited for all sewer payments made.
- Once a new flow meter is stalled by the City and measuring to the satisfaction of both parties, the parties may elect to start using the actual flow volume rather the estimated 15,000,000 gallons.
- Disputed balances in arrears remain unresolved.
- Neither party waives any rights under the Contract.
- Each Party reserves any and all legal defenses.

Subsequent to June 30, 2016, the City completed the installation of the new flow meter, however the actual volume per the flow meter is not yet being used for billing purposes. The City is still being billed based on the 15,000,000 gallons per month. Disputed balances in arrears amounted to approximately \$236,000 at June 30, 2016. The City has not recorded these disputed charges as a liability at June 30, 2016.

Note 17 – Subsequent Events

Management has evaluated subsequent events through November 7, 2016, the date which the financial statements were available to be issued.

Note 18 – Recently Issued Accounting Standards Update

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for years beginning after June 15, 2017, provides guidance for measuring the present value of the projected benefits to be provided to employees that is attributed to those employees' past periods of service. The City has not determined the effect, if any, that the adoption of this statement may have on its financial statements.

City of Russell Springs, Kentucky
Schedule of the City's Proportionate Share of the Net Pension Liability
County Employees' Retirement System
Last Two Fiscal Years

	June 30, 2015		June 30, 2016	
	<u>Hazardous</u>	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Non-Hazardous</u>
City's proportion of the net pension liability	0.061450%	0.028644%	0.066330%	0.029001%
City's proportionate share of the net pension liability	\$ 738,402	\$ 928,353	\$ 1,018,236	\$ 1,246,914
City's covered-employee payroll	\$ 339,285	\$ 676,639	\$ 394,788	\$ 678,576
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	217.63%	137.20%	257.92%	183.75%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%

City of Russell Springs, Kentucky
Schedule of the City's Contributions
County Employees' Retirement System
Last Two Fiscal Years

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Contractually required contribution (includes \$79,285 for Health Insurance Fund)	\$ 233,559	\$ 245,945
Contributions in relation to the contractually required contribution	<u>(233,559)</u>	<u>(245,945)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,015,924	\$ 1,073,364
Contributions as a percentage of covered-employee payroll	22.99%	22.91%

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Mayor and City Council
City of Russell Springs, Kentucky

We 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 and each major fund the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Russell Springs, Kentucky's basic financial statements and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2016-1 and 2016-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2016-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Russell Springs, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

City of Russell Springs, Kentucky Responses to Findings

The City of Russell Springs responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Russell Springs responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
November 7, 2016

City of Russell Springs, Kentucky
Schedule of Findings and Responses
June 30, 2016

A. Findings – Financial Statement Audit

2016-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The City's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles.

Effect:

The City was unable to prepare or review their financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. Without proper internal resources and procedures to ensure that the financial statements are prepared in accordance with general accepted accounting principles, the risk of material misstatement is increased.

Management engaged the auditor to prepare draft financials statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to issuance.

Views of responsible officials and planned corrective actions:

We are aware that we have limited resources which prevent the preparation of financial statements and related note disclosures in accordance with Generally Accepted Accounting Principles. It is due to these limited resources that we cannot have additional personnel or seek the assistance of outside accounting firms to assist with this process.

2016-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

There are not appropriate segregation of duties in the areas of payroll, accounts receivable, accounts payable, general ledger bookkeeping and cash receipts and disbursements. Those individuals charged with maintaining the accounts receivable ledgers for utility services also have the duties to approve and record customer adjustments and credit memos and are in charge of collecting payments, both mail in and over the counter without mitigating controls in place. Those individuals charged with maintaining the accounts payable ledgers also have the duties to prepare payroll, write and sign checks, prepare bank

City of Russell Springs, Kentucky
Schedule of Findings and Responses (Continued)
June 30, 2016

2016-2 (continued)

reconciliations, change and update vendor lists, approve and record adjustments, prepare W-2's, maintain employee files and have the ability to change the approved checks signers without mitigating controls in place. The Mayor signs and approves all check disbursements.

Effect:

This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

Views of responsible officials and planned corrective actions:

The City has limited resources that prevent being able to further segregate duties, but will implement stronger internal controls to help mitigate any risk associated with the process.

2016-3

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

There is not appropriate segregation of duties or other controls over the deposits of customer water and sewer usage payments. Those individuals collecting customer payments are also charged with crediting the customer accounts, counting cash drawers at day's end, preparing the deposit and making the deposit at the bank.

Effect:

This condition could provide an opportunity for misappropriation of funds and concealment of such activity.

Views of responsible officials and planned corrective actions:

The City has limited resources that prevent being able to further segregate duties, but will implement stronger internal controls to help mitigate any risk associated with the process.