



Independent Auditors' Report

And Financial Statements

For The Year Ended

June 30, 2017

City of Russell Springs, Kentucky  
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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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**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, 2017, 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.

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## **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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Water and Sewer Services on page 38 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017 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 2, 2017

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City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### **FINANCIAL HIGHLIGHTS**

- The City collected approx. \$154,000 in alcohol regulatory fees, which is a new source of revenue in FY 16-17.
- Retirement rates for fiscal year FY 16-17 were 18.66% for non-hazardous and 31.06% for hazardous, a slight change from the previous fiscal year.
- The City made several capital purchases including vehicles as well as property located on Cade Road.
- Property tax rate for 2016 remained at .170 per \$100 of assessed property value.
- Cash available for use to pay the City's obligations as of June 30, 2017 is approximately \$1.6 million which was a decrease compared to the prior year.
- The City's total General Fund revenues were over budget by approximately \$427,000 and expenses were over budget by approximately \$541,000.
- The City's proportionate share of the CERS net pension liability increased approximately \$435,000 from the previous fiscal year, from approximately \$2,265,000 to \$2,700,000.
- The City's only new debt in FY 2017 consisted of the financing of two vehicles and the land located on Cade Road.
- The City had some unexpected repairs & maintenance that took place due to a water line breaking near Goose Creek.

**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, 2017

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		Business-type		Totals	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 2,072	\$ 2,325	\$ 1,164	\$ 1,258	\$ 3,236	\$ 3,583
Capital assets	1,657	1,384	9,462	9,757	11,119	11,141
Total assets	3,729	3,709	10,626	11,015	14,355	14,724
Deferred outflows of resources	572	363	158	125	730	488
Current liabilities	190	179	545	527	735	706
Non-current liabilities	2,079	1,754	3,141	3,174	5,220	4,928
Total liabilities	2,269	1,933	3,686	3,701	5,955	5,634
Deferred inflows of resources	10	-	8	-	18	-
Net position:						
Invested in capital assets						
net of debt	1,460	1,176	6,942	7,140	8,402	8,316
Restricted	-	-	509	494	509	494
Unrestricted	563	964	(361)	(196)	202	768
Total net position	\$ 2,023	\$ 2,140	\$ 7,090	\$ 7,438	\$ 9,113	\$ 9,578

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 new Ford Explorer that

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2017

will be used by the fire department. The vehicle was financed through a bank with a one-year maturity date. The City also purchased a \$260,000 property on Cade Road. \$40,000 was financed through a local bank with a one-year maturity date.

**Table 2**  
**Changes in Net Position (in Thousands)**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
Program revenues:						
Charges for service	\$ 21	\$ -	\$ 2,965	\$ 2,816	\$ 2,986	\$ 2,816
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Taxes	1,381	1,297	-	-	1,381	1,297
Licenses and permits	987	795	-	-	987	795
Fines and forfeits	3	5	-	-	3	5
Intergovernmental programs	142	131	-	-	142	131
Interest revenue	-	-	1	1	1	1
Other revenues	48	94	74	69	122	163
Gain on sale of fixed assets	-	-	-	-	-	-
<b>Total revenues</b>	<b>2,582</b>	<b>2,322</b>	<b>3,040</b>	<b>2,886</b>	<b>5,622</b>	<b>5,208</b>
Program expenses:						
General government	736	608	-	-	736	608
Police	1,120	903	-	-	1,120	903
Fire	82	76	-	-	82	76
Highways and streets	242	454	-	-	242	454
Parks	443	258	-	-	443	258
Interest on long-term debt	7	4	-	-	7	4
Unallocated depreciation	141	124	-	-	141	124
Water and sewer	-	-	3,280	2,902	3,280	2,902
Capital outlay	-	-	-	-	-	-
Senior citizens	-	-	38	38	38	38
<b>Total expenses</b>	<b>2,771</b>	<b>2,427</b>	<b>3,318</b>	<b>2,940</b>	<b>6,089</b>	<b>5,367</b>
Excess (deficiency) before transfers	(189)	(105)	(278)	(54)	(467)	(159)
Transfers	71	-	(71)	-	-	-
<b>Increase (decrease) in net position</b>	<b>\$ (118)</b>	<b>\$ (105)</b>	<b>\$ (349)</b>	<b>\$ (54)</b>	<b>\$ (467)</b>	<b>\$ (159)</b>

All city employees received pay increases. Occupational payroll taxes increased by 8.3% and Franchise Fees increased by 9.5%. Police expenditures increased 24% as a result of increase in salaries and wages and employee benefits from the increase in the number of positions as well as two new vehicle purchased. Highway and streets remained fairly consistent with prior year. The general government expenses have increased by approx. \$128,000 due to alcohol regulation expenses incurred in FY 16-17.



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Management's Discussion and Analysis (MD&A)  
June 30, 2017

Water and Sewer revenue increased 5%. Expenses increased by 13% primarily as increase in water and sewer charges from Jamestown Utilities.

**CAPITAL ASSETS**

Russell Springs Police Department purchased three new Ford Explorers and emergency lighting. General Government purchased land off Cade Rd to resell to a land developer, also purchased a building to refurbish and house the ABC department. The water and sewer fund placed the mag meter into service, and purchased meters, a mapping system, and new sewer pumps. Normal annual depreciation was expensed in the government-wide financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Autos & Trucks	\$ 988	\$ 908	\$ 298	\$ 294	\$ 1,286	\$ 1,202
Buildings	1,341	1,341	1,106	1,106	2,447	2,447
Fixtures and Equipment	331	305	726	616	1,057	921
Land and Improvements	735	474	286	286	1,021	760
Construction in progress	35	-	-	-	35	-
Water and Sewer Systems	-	-	16,067	16,044	16,067	16,044
<b>Totals</b>	<b>\$ 3,430</b>	<b>\$ 3,028</b>	<b>\$ 18,483</b>	<b>\$ 18,346</b>	<b>\$ 21,913</b>	<b>\$ 21,374</b>

**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 fire truck payment is due each October. Two annual payments will be made in July for the Cade Road and the 2017 Ford Explorers.

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

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Notes Payable	\$ 197	\$ 208	\$ 601	\$ 616	\$ 798	\$ 824
Leases Payable	-	-	-	-	-	-
Revenue Bonds	-	-	1,919	2,002	1,919	2,002
<b>Totals</b>	<b>\$ 197</b>	<b>\$ 208</b>	<b>\$ 2,520</b>	<b>\$ 2,618</b>	<b>\$ 2,717</b>	<b>\$ 2,826</b>

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2017

**COMMENTS ON BUDGET COMPARISONS**

- Raises were given to all employees
- Water and Sewer Revenue along with Penalties and Taps increased from FY 15-16
- Payroll taxes increased along with franchise fees from FY 15-16

**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.

**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, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets and Deferred Outflows</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,594,583	\$ 302,760	\$ 1,897,343
Investments	3,953	-	3,953
Receivables:			
Customers	-	369,407	369,407
Taxes	369,409	-	369,409
Unbilled	-	129,442	129,442
Allowance	-	(100,000)	(100,000)
Other	895	-	895
Inventory	-	56,956	56,956
Internal balances	103,503	(103,503)	-
Restricted assets:			
Cash	-	509,084	509,084
<b>Total Current Assets</b>	<b>2,072,343</b>	<b>1,164,146</b>	<b>3,236,489</b>
<b>Noncurrent Assets</b>			
Capital assets	3,430,330	18,483,252	21,913,582
Less: accumulated depreciation	(1,773,555)	(9,021,341)	(10,794,896)
Net capital assets	1,656,775	9,461,911	11,118,686
<b>Total Assets</b>	<b>3,729,118</b>	<b>10,626,057</b>	<b>14,355,175</b>
Deferred Outflows of Resources	572,360	158,205	730,565
<b>Liabilities, Deferred Inflows and Net Position</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Revenue bonds payable	-	84,600	84,600
Notes payable	78,574	36,762	115,336
Accounts payable	41,603	161,932	203,535
Accrued payroll and payroll taxes	43,074	3,345	46,419
Customer deposits payable	-	225,769	225,769
Accrued vacation	26,372	10,265	36,637
Accrued interest payable	-	22,735	22,735
<b>Total Current Liabilities</b>	<b>189,623</b>	<b>545,408</b>	<b>735,031</b>
<b>Non-current Liabilities</b>			
Revenue bonds payable	-	1,834,499	1,834,499
Notes payable	118,288	564,097	682,385
Net pension liability	1,961,382	742,250	2,703,632
<b>Total non-current liabilities</b>	<b>2,079,670</b>	<b>3,140,846</b>	<b>5,220,516</b>
<b>Total Liabilities</b>	<b>2,269,293</b>	<b>3,686,254</b>	<b>5,955,547</b>
Deferred Inflows of Resources	9,616	8,209	17,825
<b>Net Position</b>			
Invested in capital assets, net of related debt	1,459,913	6,941,953	8,401,866
Restricted for:			
Debt service	-	296,025	296,025
Other purposes	-	213,059	213,059
Unrestricted	562,656	(361,238)	201,418
<b>Total Net Position</b>	<b>\$ 2,022,569</b>	<b>\$ 7,089,799</b>	<b>\$ 9,112,368</b>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Statement of Activities  
For the Year Ended June 30, 2017

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges	Operating	Capital	Governmental	Business	Total
		For	Grants &	Grants &			
	Services	Contributions	Contributions	Activities	Activities		
<b>Governmental Activities:</b>							
General government	\$ 735,968	\$ 9,585	\$ -	\$ -	\$ (726,383)	\$ -	\$ (726,383)
Police	1,119,534	-	-	-	(1,119,534)	-	(1,119,534)
Fire	81,763	-	-	-	(81,763)	-	(81,763)
Highways and streets	443,199	-	-	-	(443,199)	-	(443,199)
Culture and Recreation	241,646	11,411	-	-	(230,235)	-	(230,235)
Interest on long-term debt	7,452	-	-	-	(7,452)	-	(7,452)
Unallocated depreciation	140,904	-	-	-	(140,904)	-	(140,904)
<b>Total Governmental Activities</b>	<b>2,770,466</b>	<b>20,996</b>	<b>-</b>	<b>-</b>	<b>(2,749,470)</b>	<b>-</b>	<b>(2,749,470)</b>
<b>Business-Type Activities</b>							
Water and Sewer	3,279,690	2,948,946	-	-	-	(330,744)	(330,744)
Senior Citizens	37,928	15,600	-	-	-	(22,328)	(22,328)
<b>Total Business-Type Activities</b>	<b>3,317,618</b>	<b>2,964,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(353,072)</b>	<b>(353,072)</b>
<b>Total City</b>	<b>\$ 6,088,084</b>	<b>\$ 2,985,542</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(2,749,470)</b>	<b>(353,072)</b>	<b>(3,102,542)</b>
			<b>General Revenues:</b>				
			Taxes		1,381,568	-	1,381,568
			Licenses and permits		986,813	-	986,813
			Fines		3,033	-	3,033
			Intergovernmental programs		142,198	-	142,198
			Interest revenue		-	1,084	1,084
			Other revenues		47,669	73,590	121,259
			<b>Total General Revenues</b>		<b>2,561,281</b>	<b>74,674</b>	<b>2,635,955</b>
			Transfers		70,628	(70,628)	-
			Change in Net Position		(117,561)	(349,026)	(466,587)
			Net Position - Beginning		2,140,130	7,438,825	9,578,955
			Net Position - Ending		<b>\$ 2,022,569</b>	<b>\$ 7,089,799</b>	<b>\$ 9,112,368</b>

City of Russell Springs, Kentucky  
Balance Sheet - Governmental Funds  
June 30, 2017

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,519,139	64,521	10,923	\$ 1,594,583
Investments	3,953	-	-	3,953
Receivables				
Taxes receivable	369,409	-	-	369,409
Other receivables	895	-	-	895
Due from other funds	103,503	-	-	103,503
	<u>1,996,899</u>	<u>64,521</u>	<u>10,923</u>	<u>2,072,343</u>
<b>Total Assets</b>	<b>\$ 1,996,899</b>	<b>\$ 64,521</b>	<b>\$ 10,923</b>	<b>\$ 2,072,343</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 41,603	\$ -	\$ -	\$ 41,603
Accrued vacation	26,372	-	-	26,372
Payroll taxes payable	27,096	-	-	27,096
Accrued payroll	15,978	-	-	15,978
<b>Total Liabilities</b>	<b>111,049</b>	<b>-</b>	<b>-</b>	<b>111,049</b>
<b>Fund Balances</b>				
Restricted	-	64,521	10,923	75,444
Unassigned	1,885,850	-	-	1,885,850
<b>Total Fund Balances</b>	<b>1,885,850</b>	<b>64,521</b>	<b>10,923</b>	<b>1,961,294</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,996,899</b>	<b>\$ 64,521</b>	<b>\$ 10,923</b>	<b>\$ 2,072,343</b>

City of Russell Springs, Kentucky  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Position  
 June 30, 2017

Total Fund Balances Per Fund Financial Statements \$ 1,961,294

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. 1,656,775

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 572,360

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	(196,862)	
Deferred inflows related to pension	(9,616)	
Net pension liability	<u>(1,961,382)</u>	<u>(2,167,860)</u>

Net Position of Governmental Activities \$ 2,022,569

City of Russell Springs, Kentucky  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds  
June 30, 2017

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Taxes	\$ 1,381,568	\$ -	\$ -	\$ 1,381,568
Licenses and permits	986,813	-	-	986,813
Fines and forfeits	3,033	-	-	3,033
Intergovernmental programs	88,759	47,564	5,875	142,198
Miscellaneous income	68,665	-	-	68,665
Total Revenue	<u>2,528,838</u>	<u>47,564</u>	<u>5,875</u>	<u>2,582,277</u>
Expenditures				
General government	1,001,949	-	-	1,001,949
Police	1,114,270	-	2,956	1,117,226
Fire	81,763	-	-	81,763
Highways and streets	377,248	14,212	-	391,460
Culture and recreation	272,232	-	-	272,232
Debt service	88,015	-	-	88,015
Total Expenditures	<u>2,935,477</u>	<u>14,212</u>	<u>2,956</u>	<u>2,952,645</u>
Excess of Revenues Over (Under) expenditures	<u>(406,639)</u>	<u>33,352</u>	<u>2,919</u>	<u>(370,368)</u>
Other Financing Sources				
Transfer In	70,628	-	-	70,628
Proceeds from long-term debt	69,123	-	-	69,123
Total Other Financing Sources	<u>139,751</u>	<u>-</u>	<u>-</u>	<u>139,751</u>
Net Change in Fund Balance	(266,888)	33,352	2,919	(230,617)
Fund Balances July 1, 2016	<u>2,152,738</u>	<u>31,169</u>	<u>8,004</u>	<u>2,191,911</u>
Fund Balances June 30, 2017	<u>\$ 1,885,850</u>	<u>\$ 64,521</u>	<u>\$ 10,923</u>	<u>\$ 1,961,294</u>

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, 2017

Net Change in Total Fund Balances Per Fund Financial Statements \$ (230,617)

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. 272,427

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. (170,811)

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. 11,440

Change in Net Position of Governmental Activities \$ (117,561)



City of Russell Springs, Kentucky  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Budget and Actual - General Fund  
June 30, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 1,010,000	\$ 1,192,436	\$ 1,381,568	\$ 189,132
Licenses and permits	602,900	530,305	986,813	456,508
Fines and forfeits	-	-	3,033	3,033
Intergovernmental programs	30,175	58,196	88,759	30,563
Miscellaneous income	141,800	319,955	68,665	(251,290)
Total Revenue	<u>1,784,875</u>	<u>2,100,892</u>	<u>2,528,838</u>	<u>427,946</u>
Expenditures				
General government	466,336	683,400	1,001,949	(318,549)
Police	1,025,921	1,028,333	1,114,270	(85,937)
Fire	87,620	110,913	81,763	29,150
Highways and streets	252,197	331,892	377,248	(45,356)
Parks	221,680	239,090	272,232	(33,142)
Debt service	-	-	88,015	(88,015)
Total Expenditures	<u>2,053,754</u>	<u>2,393,628</u>	<u>2,935,477</u>	<u>(541,849)</u>
Excess of Revenues Over (Under) expenditures	<u>(268,879)</u>	<u>(292,736)</u>	<u>(406,639)</u>	<u>(113,903)</u>
Other Financing Sources				
Transfer in	-	-	70,628	70,628
Proceeds from long-term debt	-	-	69,123	69,123
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>139,751</u>	<u>69,123</u>
Net Change in Fund Balance	(268,879)	(292,736)	(266,888)	(44,780)
Fund Balance July 1, 2016	<u>2,152,738</u>	<u>2,152,738</u>	<u>2,152,738</u>	<u>-</u>
Fund Balance June 30, 2017	<u>\$ 1,883,859</u>	<u>\$ 1,860,002</u>	<u>\$ 1,885,850</u>	<u>\$ (44,780)</u>

City of Russell Springs, Kentucky  
Statement of Net Position - Proprietary Funds  
June 30, 2017

	<u>Water and Sewer Fund</u>	<u>Senior Citizens Fund</u>	<u>Total Proprietary Funds</u>
<b>Assets and Deferred Outflows</b>			
Current Assets			
Cash and cash equivalents	\$ 291,898	\$ 10,862	\$ 302,760
Receivables:			
Customers	369,407	-	369,407
Unbilled	129,442	-	129,442
Allowance	(100,000)	-	(100,000)
Inventory	56,956	-	56,956
Restricted Assets:			
Cash	509,084	-	509,084
Total Current Assets	<u>1,256,787</u>	<u>10,862</u>	<u>1,267,649</u>
Noncurrent Assets			
Capital assets, net of depreciation	8,543,139	918,772	9,461,911
Total Noncurrent Assets	<u>8,543,139</u>	<u>918,772</u>	<u>9,461,911</u>
<b>Total Assets</b>	<u>9,799,926</u>	<u>929,634</u>	<u>10,729,560</u>
<b>Deferred Outflows of Resources</b>	<u>158,205</u>	<u>-</u>	<u>158,205</u>
<b>Liabilities and Net Pension</b>			
Liabilities			
Current Liabilities			
Revenue bonds payable	84,600	-	84,600
Notes payable	36,762	-	36,762
Accounts payable	161,932	-	161,932
Accrued payroll and payroll taxes	3,345	-	3,345
Customer deposits payable	225,769	-	225,769
Accrued vacation	10,265	-	10,265
Due to other funds	87,912	15,591	103,503
Accrued interest payable	22,735	-	22,735
Total Current Liabilities	<u>633,320</u>	<u>15,591</u>	<u>648,911</u>
Noncurrent Liabilities			
Revenue bonds payable	1,834,499	-	1,834,499
Notes payable	564,097	-	564,097
Net pension liability	742,250	-	742,250
Total Noncurrent Liabilities	<u>3,140,846</u>	<u>-</u>	<u>3,140,846</u>
<b>Total Liabilities</b>	<u>3,774,166</u>	<u>15,591</u>	<u>3,789,757</u>
<b>Deferred Inflows of Resources</b>	<u>8,209</u>	<u>-</u>	<u>8,209</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	6,023,181	918,772	6,941,953
Restricted for:			
Debt service	296,025	-	296,025
Other purposes	213,059	-	213,059
Unrestricted	(356,509)	(4,729)	(361,238)
<b>Total Net Position</b>	<u>\$ 6,175,756</u>	<u>\$ 914,043</u>	<u>\$ 7,089,799</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, 2017

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Operating Revenues			
Charges for services	\$ 2,948,946	\$ 15,600	\$ 2,964,546
Total Operating Revenues	<u>2,948,946</u>	<u>15,600</u>	<u>2,964,546</u>
Operating Expenses			
Salaries	319,098	-	319,098
Payroll taxes	24,941	-	24,941
Motor fuels	29,171	-	29,171
Depreciation and amortization	418,476	37,897	456,373
Maintenance	93,031	-	93,031
Utilities	84,909	-	84,909
Employee benefits	196,775	-	196,775
Insurance	68,153	-	68,153
Supplies	191,851	-	191,851
Office supplies	3,923	-	3,923
Professional fees	17,852	31	17,883
Advertising and printing	1,049	-	1,049
Lab analysis	4,785	-	4,785
Water purchases	794,633	-	794,633
Sanitation	722,959	-	722,959
Dues and subscriptions	425	-	425
Uniforms	4,097	-	4,097
Miscellaneous	5,114	-	5,114
Sales tax	34,809	-	34,809
Utility tax	54,317	-	54,317
Communications and postage	25,287	-	25,287
Bad debt expense	90,000	-	90,000
Total Operating Expenses	<u>3,185,655</u>	<u>37,928</u>	<u>3,223,583</u>
Operating Income (Loss)	<u>(236,709)</u>	<u>(22,328)</u>	<u>(259,037)</u>
Nonoperating Revenues (Expenses)			
Transfer Out	-	(70,628)	(70,628)
Interest revenue	1,084	-	1,084
Interest expense	(94,035)	-	(94,035)
Miscellaneous revenue	73,590	-	73,590
Total Nonoperating Revenues (Expenses)	<u>(19,361)</u>	<u>(70,628)</u>	<u>(89,989)</u>
Change in Net Position	(256,070)	(92,956)	(349,026)
Net Position, July 1, 2016	<u>6,431,826</u>	<u>1,006,999</u>	<u>7,438,825</u>
Net Position, June 30, 2017	<u>\$ 6,175,756</u>	<u>\$ 914,043</u>	<u>\$ 7,089,799</u>

See accompanying notes to financial statements.

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City of Russell Springs, Kentucky  
Statement of Cash Flows -  
Proprietary Funds  
For the Year Ended June 30, 2017

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
<b>Cash Flows From Operating Activities</b>			
Cash receipts from customers	\$ 3,020,455	\$ 15,600	\$ 3,036,055
Cash payments to suppliers for goods or services	(2,227,085)	(31)	(2,227,116)
Cash payments to employees for services	(493,719)	-	(493,719)
<b>Net Cash Provided by Operating Activities</b>	<u>299,651</u>	<u>15,569</u>	<u>315,220</u>
<b>Cash Flows From Capital Financing Activities</b>			
Other cash receipts	73,590	-	73,590
Cash paid for interest	(94,035)	-	(94,035)
Interfund activity	-	(70,628)	(70,628)
Proceeds from long-term debt	27,765	-	27,765
Payments of principal on long-term debt	(125,224)	-	(125,224)
<b>Net Cash Used in Capital Financing Activities</b>	<u>(117,904)</u>	<u>(70,628)</u>	<u>(188,532)</u>
<b>Cash Flows From Investing Activities</b>			
Purchase of capital assets	(160,852)	-	(160,852)
Receipt of interest income	1,084	-	1,084
<b>Net Cash Used by Investing Activities</b>	<u>(159,768)</u>	<u>-</u>	<u>(159,768)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	21,979	(55,059)	(33,080)
<b>Cash and Cash Equivalents July 1, 2016</b>	<u>779,003</u>	<u>65,921</u>	<u>844,924</u>
<b>Cash and Cash Equivalents June 30, 2017</b>	<u>\$ 800,982</u>	<u>\$ 10,862</u>	<u>\$ 811,844</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ (236,709)	\$ (22,328)	\$ (259,037)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	418,476	37,897	456,373
Bad debt expense	90,000	-	90,000
(Increase) Decrease in:			
Accounts receivable	(18,491)	-	(18,491)
Inventory	(10,733)	-	(10,733)
Deferred outflows of resources	(33,650)	-	(33,650)
Increase (Decrease) in:			
Accounts payable	10,392	-	10,392
Customer deposits payable	546	-	546
Accrued payroll and payroll taxes	3,216	-	3,216
Accrued vacation	1,044	-	1,044
Accrued interest	(925)	-	(925)
Net pension liability	68,276	-	68,276
Deferred inflows of resources	8,209	-	8,209
<b>Cash Provided by Operating Activities</b>	<u>\$ 299,651</u>	<u>\$ 15,569</u>	<u>\$ 315,220</u>
<b>Cash Reconciliation:</b>			
Cash and cash equivalents	\$ 291,898	\$ 10,862	\$ 302,760
Restricted cash	509,084	-	509,084
<b>Cash and Cash Equivalents June 30, 2017</b>	<u>\$ 800,982</u>	<u>\$ 10,862</u>	<u>\$ 811,844</u>

City of Russell Springs, Kentucky  
Notes to Financial Statements  
June 30, 2017

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, 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Property taxes, licenses, insurance premium taxes, and occupational taxes 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, 2017, expenditures exceeded appropriations in the General Fund by \$541,849. These expenditures were primarily funded by greater than anticipated revenues.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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 15<sup>th</sup> 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, 2017 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, 2017

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 one item that qualifies for reporting in this category which is related to change in proportion and differences between employer contributions and proportionate share of contributions. 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, 2017

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, 2017 the carrying amount of unrestricted cash and investments was \$1,901,296 and the bank balance was \$2,397,832. 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, 2017, \$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, 2017

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, 2017, \$2,136,970 of the City's bank balance of \$2,397,832 was exposed to custodial credit risk as described below. \$260,862 of the City's deposits was covered by Federal depository insurance at June 30, 2017.

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	2,136,970
Uninsured and collateral held by pledging bank's trust department not in the City's name	-
<b>Total</b>	<u><u>\$ 2,136,970</u></u>

Note 6 – Revenue Bonds Payable

At June 30, 2017, 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	90,999
Revenue Bonds	5.00%	1986	125,000
Revenue Bonds	4.50%	1996 A	417,000
Revenue Bonds	4.50%	1996 B	933,000
Revenue Bonds	4.50%	2001	250,100
Revenue Bonds	4.00%	2004	<u>103,000</u>
 Total payable at par			 1,919,099
 Less: current portion payable from restricted assets			 <u>84,600</u>
 Total long-term portion			 <u><u>\$ 1,834,499</u></u>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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>
2018	84,600	80,568
2019	89,900	76,567
2020	94,100	72,343
2021	98,900	67,919
2022-2026	428,600	282,334
2027-2031	454,000	185,528
2032-2036	531,300	75,537
2037-2041	96,200	11,861
2042-2045	41,499	362
Total	<u>\$ 1,919,099</u>	<u>\$ 853,019</u>

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

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.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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 \$175,918 for the year ended June 30, 2017. 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 2017 through 2044. The total principal and interest remaining to be paid on the bonds as of June 30, 2017 is \$2,772,118. Principal and interest paid for the year ended June 30, 2017 was \$171,497.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 7 – Notes Payable

As of June 30, 2017, the City had the following notes payable outstanding:

Description	Interest Rate	Maturity Date	Amount
Pumper Truck Loan	3.000%	March 2024	\$ 132,784
Manhole Project Loan	1.000%	June 2034	573,094
Vehicle Loan	3.000%	July 2017	14,234
Vehicle Loan	3.000%	July 2017	14,780
Land Loan	3.000%	June 2018	19,412
Vehicle Loan	3.000%	June 2021	27,765
Vehicle Loan	3.000%	July 2017	<u>15,652</u>
 Total			 797,721
 Less: current portion			 <u>115,336</u>
 Total long-term portion			 <u><u>\$ 682,385</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
2018	\$ 78,574	\$ 4,926	\$ 36,762	\$ 6,567
2019	14,931	3,530	37,266	5,925
2020	15,378	3,082	37,779	5,398
2021	15,840	2,620	38,270	4,876
2022	16,315	2,146	31,350	4,430
Thereafter	<u>55,824</u>	<u>3,441</u>	<u>419,432</u>	<u>27,809</u>
Total	<u><u>\$ 196,862</u></u>	<u><u>\$ 19,745</u></u>	<u><u>\$ 600,859</u></u>	<u><u>\$ 55,005</u></u>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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, 2017 the City's covered payroll for hazardous and non-hazardous positions was \$1,142,965. 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, 2017.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	18.66%
Hazardous	8.0%-9.0%	31.06%

The City's contribution for the fiscal year ended June 30, 2017 amounted to \$336,523, of which \$266,531 was contributed by the City and \$69,992 by the City's employees.

Membership in CERS consisted of the following at June 30, 2017:

	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	51,673	6,834	58,507
Inactive memberships	75,904	2,309	78,213
Active plan members	<u>83,346</u>	<u>9,139</u>	<u>92,485</u>
	<u>210,923</u>	<u>18,282</u>	<u>229,205</u>
Number of participating employers			<u>1,140</u>

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

At June 30, 2017, the City reported a liability of \$2,703,631 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2016, the City's proportion was 0.076 percent for hazardous and .028 percent for non-hazardous.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 8 - Retirement Plan (Continued)

For the year ended June 30, 2017, the City recognized pension expense of \$389,425. At June 30, 2017, 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	\$ 136,692	\$ 17,825
Differences between expected and actual experience	24,963	-
Changes of assumptions	148,994	-
Net difference between projected and actual earnings on Plan investments	241,540	-
City's contributions subsequent to the measurement date	178,375	-
Total	\$ 730,564	\$ 17,825

The \$178,375 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, 2018. 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,	
2018	\$ 145,380
2019	145,380
2020	132,162
2021	111,442

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.

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 (TPL) for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. June 30, 2015 was the actuarial valuation date upon which the TPL was based. An expected TPL was determined as of June 30, 2016 using standard roll forward techniques. The roll forward calculation added the annual normal cost (also called the service cost), subtracted the actual benefit payments and refunds for the plan year and then applied the expected investment rate of return for the year.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 8 - Retirement Plan (Continued)

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
Measurement Date:	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:



City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 8 - Retirement Plan (Continued)

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	
<b>Total</b>	<u>100</u>		<b>%</b>

*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 27 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%	\$ 3,382,000
Current discount rate	7.5%	\$ 2,703,000
1% increase	8.5%	\$ 2,132,000

*Payables to the pension plan:* At June 30, 2017, the City reported a payable including insurance contributions of \$24,218 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

*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](http://www.kyret.ky.gov).

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 9 – Summary of Fixed Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

<u>Governmental Activities</u>	Beginning Balance	Additions	Deductions	Ending Balance
Autos and trucks	\$ 907,714	\$ 92,239	\$ 11,500	\$ 988,453
Buildings	1,341,352	-	-	1,341,352
Fixtures and equipment	304,732	26,092	-	330,824
Buildings and land improvements	429,901	-	-	429,901
Land	44,800	260,000	-	304,800
Construction in progress	-	35,000	-	35,000
Totals at Historical Cost	<u>3,028,499</u>	<u>378,331</u>	<u>11,500</u>	<u>3,430,330</u>
Less: accumulated depreciation				
Autos and trucks	624,372	69,390	11,500	682,262
Buildings	659,236	27,676	-	686,912
Fixtures and equipment	228,013	14,680	-	242,693
Buildings and land improvements	132,530	29,158	-	161,688
Total Accumulated Depreciaton	<u>1,644,151</u>	<u>140,904</u>	<u>11,500</u>	<u>1,773,555</u>
Governmental Activities Capital Assets - Net	<u>\$ 1,384,348</u>	<u>\$ 237,427</u>	<u>\$ -</u>	<u>\$ 1,656,775</u>
<u>Business-Type Activities</u>				
Autos and trucks	\$ 293,623	\$ 27,765	\$ 23,387	\$ 298,001
Land and improvements	286,406	-	-	286,406
Buildings	1,106,282	-	-	1,106,282
Fixtures and equipment	616,663	108,770	-	725,433
Water and sewer systems	16,042,813	89,020	64,703	16,067,130
Totals at Historical Cost	<u>18,345,787</u>	<u>225,555</u>	<u>88,090</u>	<u>18,483,252</u>
Less: accumulated depreciation				
Autos and trucks	242,369	17,697	23,387	236,679
Land and improvements	32,028	6,418	-	38,446
Buildings	331,707	36,876	-	368,583
Fixtures and equipment	464,689	29,079	-	493,768
Water and sewer systems	7,517,562	366,303	-	7,883,865
Total Accumulated Depreciation	<u>8,588,355</u>	<u>456,373</u>	<u>23,387</u>	<u>9,021,341</u>
Business-Type Activities Capital Assets - Net	<u>\$ 9,757,432</u>	<u>\$ (230,818)</u>	<u>\$ 64,703</u>	<u>\$ 9,461,911</u>

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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, 2017 are as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 103,503	\$ -
Water and Sewer Fund	-	87,912
Senior Citizens Fund	-	15,591
	\$ 103,503	\$ 103,503

Note 12 – Summary of Long-term Debt

Long-term debt activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Notes Payable	\$ 208,302	\$ 69,123	\$ 80,563	\$ 196,862	\$ 78,574
Governmental Activities:					
Long-term Debt	\$ 208,302	\$ 69,123	\$ 80,563	\$ 196,862	\$ 78,574
Business-type Activities:					
Revenue Bonds	\$ 2,001,500	\$ -	\$ 82,400	\$ 1,919,100	\$ 84,600
Notes Payable	615,917	27,765	42,823	600,859	36,762
Business-type Activities:					
Long-term Debt	\$ 2,617,417	\$ 27,765	\$ 125,223	\$ 2,519,959	\$ 121,362

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

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 \$1,885,850 as of June 30, 2017.

Other Major Funds

The Municipal Road Aid Fund has restricted funds of \$64,521 that are set aside for City road repairs. The Special Revenue Fund has restricted funds of \$10,923 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, 2017

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 \$1,586 on City vehicles during the fiscal year ended June 30, 2017. Another Council Member owns a machine shop that repaired heavy equipment for the City in the amount of \$9,174 and the third owns an auto accessories store which sold parts to the City in the amount of \$9,609 during the fiscal year. In addition, the City purchased \$6,599 of medical supplies from a company which employs the spouse of a city employee.

Note 16 – Contingencies

The City has received financial assistance from federal, state and local governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and the Single Audit Act, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds, however, such disallowed claims, if any, are not expected to have a materially adverse effect on the City's financial position at June 30, 2017.

The City is involved in various claims and legal matters relating to its operations which have all been tended to, and are either being adjusted by the City's liability carrier, or are being defended by attorneys retained by the City's liability carrier. The status of these matters is uncertain at this time. Any potential loss is also uncertain.

Note 17 – Subsequent Events

Management has evaluated subsequent events through November 2, 2017, the date which the financial statements were available to be issued.

On August 30, 2017 the City sold a property for the amount of \$230,000.

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.

Note 19 – Other Postemployment Benefits

Plan Description – Retired employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the CERS. Covered employees hired after September 1, 2008, contribute 1.00% of their salaries to the CERS Insurance Fund. Members become eligible to receive the health insurance benefit depending on the hire date, Tier in which they participate, and type of service. Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the CERS. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

City of Russell Springs, Kentucky  
Notes to Financial Statements (Continued)  
June 30, 2017

Note 19 – Other Postemployment Benefits (Continued)

Funding Policy – Employees working for city, county, and other local governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

For the year ended June 30, 2017, KRS established a contribution rate of 4.64% for nonhazardous OPEB and 12.69% for hazardous other postemployment benefits (OPEB). During the year ended June 30, 2017, the City contributed \$34,809 for nonhazardous duty OPEB and \$53,342 for hazardous duty OPEB.

For the year ended June 30, 2016, KRS established a contribution rate of 4.64% for nonhazardous OPEB and 12.69% for hazardous other postemployment benefits (OPEB). During the year ended June 30, 2016, the City contributed \$30,014 for nonhazardous duty OPEB and \$52,220 for hazardous duty OPEB.

For the year ended June 30, 2015, KRS established a contribution rate of 4.64% for nonhazardous OPEB and 12.69% for hazardous other postemployment benefits (OPEB). During the year ended June 30, 2015, the City contributed \$31,219 for nonhazardous duty OPEB and \$48,066 for hazardous duty OPEB.

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

	June 30, 2015		June 30, 2016		June 30, 2017	
	<u>Hazardous</u>	<u>Non-Hazardous</u>	<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%	0.076253%	0.028336%
City's proportionate share of the net pension liability	\$ 738,402	\$ 928,353	\$ 1,018,236	\$ 1,246,914	\$ 1,308,471	\$ 1,395,161
City's covered-employee payroll	\$ 353,949	\$ 634,516	\$ 394,788	\$ 678,576	\$ 428,358	\$ 714,607
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.62%	146.31%	257.92%	183.75%	305.46%	195.23%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%	53.95%	55.50%

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

	Hazardous			Non-Hazardous		
	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2015	June 30, 2016	June 30, 2017
Contractually required contribution (includes pension and insurance)	\$ 121,440	\$ 130,081	\$ 133,044	\$ 112,119	\$ 115,381	\$ 133,486
Contributions in relation to the contractually required contribution	<u>(121,440)</u>	<u>(130,081)</u>	<u>(133,044)</u>	<u>(112,119)</u>	<u>(115,381)</u>	<u>(133,486)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 353,949	\$ 394,788	\$ 428,358	\$ 634,516	\$ 678,576	\$ 714,607
Contributions as a percentage of covered-employee payroll	34.31%	32.95%	31.06%	17.67%	17.05%	18.66%



City of Russell Springs, Kentucky  
Schedule of Water and Sewer Activities  
For the Year Ended June 30, 2017

	<u>Water Services</u>	<u>Sewer Services</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 2,123,933	\$ 825,013	\$ 2,948,946
Total Operating Revenues	<u>2,123,933</u>	<u>825,013</u>	<u>2,948,946</u>
Operating Expenses			
Salaries	240,661	78,437	319,098
Payroll taxes	19,021	5,920	24,941
Motor fuels	16,508	12,663	29,171
Depreciation and amortization	225,680	192,796	418,476
Maintenance	78,586	14,445	93,031
Utilities	41,610	43,299	84,909
Employee benefits	158,355	38,420	196,775
Insurance	68,153	-	68,153
Supplies	127,012	64,839	191,851
Office supplies	3,720	203	3,923
Professional fees	11,492	6,360	17,852
Advertising and printing	1,049	-	1,049
Lab analysis	4,785	-	4,785
Water purchases	794,633	-	794,633
Sanitation - Sewer and Garbage	-	722,959	722,959
Dues and subscriptions	425	-	425
Uniforms	2,898	1,199	4,097
Miscellaneous	3,173	1,941	5,114
Sales tax	34,809	-	34,809
Utility tax	27,158	27,159	54,317
Communications and postage	25,287	-	25,287
Bad debt expense	63,000	27,000	90,000
Total Operating Expenses	<u>1,948,015</u>	<u>1,237,640</u>	<u>3,185,655</u>
Operating Income (Loss)	<u>\$ 175,918</u>	<u>\$ (412,627)</u>	<u>\$ (236,709)</u>

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, 2017, 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 2, 2017.

**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 of 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 2017-1 and 2017-2 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 2017-3 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 2, 2017

City of Russell Springs, Kentucky  
Schedule of Findings and Responses  
June 30, 2017

A. Findings – Financial Statement Audit

2017-1

**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.

2017-2

**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, 2017

2017-2 (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.

2017-3

**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.

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

In planning and performing our audit of the financial statements of the City of Russell Springs, Kentucky ("City") for the year ended June 30, 2017; we considered the City's internal control in order to determine our auditing procedures for expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

#### Observations and Recommendations

##### Customer Meter Deposits

The City charges and collects water meter deposits for new customers ranging from \$50 to \$150. Those deposits are maintained in a separate general ledger account as well as a separate bank account. The balance of the cash account for meters deposits at June 30, 2017 amounted to approximately \$195,000. In addition to the cash account for meter deposits, the City also maintains a separate general ledger account for meter deposits which represents the City's liability to refund the deposits back to the customer if certain conditions are met. The balance of the customer deposit liability account at June 30, 2017 was \$242,000. The difference between the two accounts has not been formally reconciled.

*We recommend the City:*

*Formally reconcile the cash and liability accounts for water meter deposits and make any adjustments to the general ledger that are necessary to accurately reflect the City's cash and liability related to water meter deposits. We recommend the City perform the reconciliation on an annual basis, document the reconciliation and have it reviewed by the Public Works Director.*

##### Review of the A/R Aging Report for Water and Sewer

The City maintains a monthly accounts receivable report, which details how much is owed by each user. The report tracks the aging of past due balances. We reviewed the AR Aging Schedule at June 30, 2017 as part of our audit procedures. We noted that the past due balances over 60 days had grown to approximately \$110,000. Our review of the schedule indicated that the majority of the past due balances was related to prior year changes that remained unpaid after the user left the system. These past due accounts were not written-off in a timely manner.

*We recommend the City:*

*Implement a control procedure, which requires that management review the AR Aging Report on a periodic basis during the year. Management should review its policy for identifying, evaluating*

*and acting on past due accounts. Past due accounts that are determined to be uncollectible should be written off in a timely manner.*

We wish to thank City personnel for their support and assistance during our audit.

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

***Baldwin CPAs, PLLC***

November 2, 2017

November 2, 2017

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Russell Springs, Kentucky for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 11, 2017. Professional standards also require that we communicate to you the following information related to our audit.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Russell Springs, Kentucky are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

Management's estimate of depreciation expense is based on the estimated useful lives of assets placed in service. We evaluated the key factors and assumptions used to develop the estimated useful lives of the City's assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of its proportionate share of the net pension liability is based on a separately issued audit report of the employers' proportionate share of the net pension liability for CERS. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of allowance for doubtful accounts for utility billings is based on the estimated useful lives historical trends and management's analysis of the aging of the accounts. We evaluated the key factors and assumptions used to develop the estimated reserve in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 2, 2017.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management discussion and analysis, budget information – general fund, and pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the use of the members of the City Council and management of the City of Russell Springs, Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

***Baldwin CPAs, PLLC***

Baldwin CPAs, PLLC

City of Russell Springs, KY  
Schedule of Uncorrected Adjustments  
November 2, 2017

*General Fund*

<u>A/C</u>	<u>Debit</u>	<u>Credit</u>
Accrued Interest		\$2,500
Fund Balance	\$2,500	
To accrue interest on loans at June 30, 2016		

*Water & Sewer Fund*

<u>A/C</u>	<u>Debit</u>	<u>Credit</u>
A/R – Returned checks		\$8,861
Water/Sewer sales	\$8,861	
To adjust AR-Returned checks to actual at June 30, 2017		