

CITY OF RUSSELL, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2018

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of City Council
City of Russell
Russell, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Russell, Kentucky (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Russell, Kentucky as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, as amended by GASB Statement No. 85, *Omnibus 2017* effective July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 12, the budgetary comparison information on page 45, and the Schedule of City's Proportionate Share of the Net Pension and OPEB Liability and Schedule of Pension and OPEB Contributions on pages 46 through 49 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 in management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019, on our consideration of the City of Russell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Ballouay Smith Tooley, PSC

Ashland, Kentucky
March 8, 2019

**CITY OF RUSSELL, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Our discussion and analysis of the City of Russell, Kentucky's financial performance provides an overview of the City's financial activities for the year ended June 30, 2018. Please read it in conjunction with the City's basic financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$4,282,000 (net position). The unrestricted net position was (\$3,566,000).
- The City's total net position decreased (\$413,000) (8.8 percent) as a result of this year's operations and implementation of GASB 75. The net position of our governmental activities decreased by (\$398,000) (45 percent) and incurred a decrease of (\$16,000) (.42 percent) in the net position of our business-type activities when restated for GASB 75.
- As of year-end, the City's General Fund reported an ending fund balance of \$2,059,000, an increase of \$370,000 in comparison with the prior year, when restated for GASB 75. The entire fund balance is unassigned and available for use within the City's fiscal policies.
- As of year-end, the City's Proprietary Funds reported ending net position of \$3,784,000, a decrease of (\$16,000) in comparison with the prior year, when restated for GASB 75.
- The City's total capital assets increased by \$1,021,000 during the year ended June 30, 2018. This net increase resulted from additions to capital assets totaling \$1,497,000, less depreciation for the year in the amount of (\$476,000).
 - Additions to capital assets related to governmental activities totaled \$759,000, consisting of street paving in the amount of \$79,000; purchase of a Finley fire truck for the Fire Department totaling \$541,000, building improvements totaling \$15,000 and air paks and vehicle stabilization kit for \$25,000; purchase of a computer system, radars and speed monitor trailers totaling \$56,000 for the Police Department; and \$43,000 for half a backhoe for the Street Department.
 - The additions to capital assets related to business-type activities amounted to \$738,000. Additions in Waterworks includes expenses to construction in progress for the wastewater treatment project and new water tanks totaling \$475,000; two Trimble meter readers for \$14,000, an \$8,000 HVAC, a new chlorine analyzer for \$5,000, a forklift costing \$23,000 and three new actuators totaling \$139,000 for water distribution. Wastewater paid \$43,000 for the other half of the backhoe purchased and \$32,000 for a partial Bellefonte Circle system replacement.
- The City's total debt, including compensated absences, increased by \$850,000 during the current fiscal year to \$1,052,000. The net increase was due to loan proceeds to aid the water tanks project in the amount of \$382,000 less \$63,000 principal paid back as of the fiscal year end; loan proceeds to purchase a fire truck totaling \$542,000 less \$27,000 in principal paid back; and a net increase in compensated absences of \$16,000.

Using this Annual Report

This annual report consists of a series of financial statements. The City's basic financial statements

are comprised of *Government-wide Financial Statements*, *Fund Financial Statements*, and *Notes to Financial Statements*. Government-wide financial statements provide readers with a broad overview of the City's finances, in a manner similar to a private sector-business and include the Statement of Net Position and the Statement of Activities (pages 13-14). Fund financial statements consist of the governmental fund statements, the proprietary funds statements, and the fiduciary fund statement. Governmental fund statements (pages 15-18), focus on current sources and uses of resources, as well as on balances of resources available for future spending. The City's General Fund is its only governmental fund. The proprietary funds statements (pages 19-21) provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The City's water, solid waste management, and wastewater activities are reported in its proprietary funds. The fiduciary fund statement (page 22) presents the assets and liabilities of the City's agency fund. These assets are not the City's and cannot be used to finance its operations. The Notes to Financial Statements (pages 23-44) provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (page 45) that relates to budgetary comparisons and pension and OPEB information (pages 46-49).

Government-wide Financial Statements

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing *how* the City's net position changed during the year.

These government-wide statements are prepared using the *accrual basis* of accounting, which is similar to the accounting used by most private-sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

In the Statement of Net Position and the Statement of Activities, we divide the City operations into two kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including general administration, and the police, streets, and fire departments. Property taxes, bank deposit franchise taxes, occupational and net profits license fees, franchise fees, and state and federal grants finance most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, solid waste management, and wastewater systems are reported here.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds of the City. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or

to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- *Governmental fund* – Most of the City's basic services are reported in a governmental fund (the General Fund), which focuses on how money flows into and out of that fund and the balance left at year-end that is available for spending. That fund is reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides, these activities are reported in enterprise funds which are types of proprietary funds. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements, but provide more detail and additional information, such as cash flows.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

The City as an Agency

The City was the agent, or fiduciary, for the FIVCO Area Drug Enforcement Task Force (FADE) for the fiscal year ending June 30, 2018. As the custodian of the assets for FADE, the assets held were used only for the FADE Task Force. Fiduciary activities are excluded from the City's other financial statements because the City could not use these assets to finance its operations. The City was responsible for ensuring that the assets reported in this fund were used for their intended purposes. At the time this report was issued, the City was no longer the fiduciary.

The Government as a Whole

As of the end of the fiscal year ended June 30, 2018, the City, as-a-whole, had negative unrestricted net positions in both its governmental activities and business-type activities. However, these are mainly due to the combined net pension liabilities of \$6,050,000 and combined net OPEB liabilities of \$2,177,000 required to be carried on the City's books in relation to the implementation of the GASBs 68 and 75.

Government-wide Financial Analysis

For the year ended June 30, 2018, the City's total net position decreased by (\$413,000) to \$4,282,000.

A condensed summary of the City's statements of net position at June 30, 2018 and 2017, restated for GASB 75, is presented below (dollars rounded):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017*</u>	<u>2018</u>	<u>2017*</u>	<u>2018</u>	<u>2017*</u>
Assets						
Current assets, unrestricted	\$ 2,060,000	\$ 1,689,000	\$ 464,000	\$ 571,000	\$ 2,524,000	\$ 2,260,000
Noncurrent assets, restricted	-	-	78,000	79,000	78,000	79,000
Capital assets, net	<u>3,802,000</u>	<u>3,325,000</u>	<u>4,840,000</u>	<u>4,297,000</u>	<u>8,642,000</u>	<u>7,622,000</u>
Total Assets	<u>5,862,000</u>	<u>5,014,000</u>	<u>5,382,000</u>	<u>4,947,000</u>	<u>11,244,000</u>	<u>9,961,000</u>
Deferred Outflows of Resources	<u>2,438,000</u>	<u>968,000</u>	<u>577,000</u>	<u>217,000</u>	<u>3,015,000</u>	<u>1,185,000</u>
Liabilities						
Current Liabilities	72,000	-	124,000	111,000	196,000	111,000
Net OPEB liability	1,760,000	1,067,000	417,000	253,000	2,177,000	1,320,000
Net Pension liability	4,891,000	3,864,000	1,158,000	945,000	6,049,000	4,809,000
Long-term liabilities, net	<u>566,000</u>	<u>113,000</u>	<u>355,000</u>	<u>45,000</u>	<u>921,000</u>	<u>158,000</u>
Total Liabilities	<u>7,289,000</u>	<u>5,044,000</u>	<u>2,054,000</u>	<u>1,354,000</u>	<u>9,343,000</u>	<u>6,398,000</u>
Deferred Inflows of Resources	<u>513,000</u>	<u>43,000</u>	<u>121,000</u>	<u>10,000</u>	<u>634,000</u>	<u>53,000</u>
Net Position:						
Invested in capital assets, net	3,288,000	3,326,000	4,482,000	4,258,000	7,770,000	7,584,000
Restricted net assets	-	-	77,000	44,000	77,000	44,000
Unrestricted assets	<u>(2,791,000)</u>	<u>(2,431,000)</u>	<u>(775,000)</u>	<u>(502,000)</u>	<u>(3,566,000)</u>	<u>(2,933,000)</u>
Total Net Position	<u>\$ 497,000</u>	<u>\$ 895,000</u>	<u>\$ 3,784,000</u>	<u>\$ 3,800,000</u>	<u>\$ 4,281,000</u>	<u>\$ 4,695,000</u>

* As restated, June 30, 2017

The largest portion of the City's net position, \$7,770,000 represents its investment in capital assets such as land and buildings, vehicles and equipment, the water plant and distribution system, and the wastewater facilities, net of related outstanding debt issued to finance the capital assets. Because the City uses these capital assets to provide services, they are not available for future spending.

An additional portion of the city's net position, \$77,000 is subject to external restrictions for debt service payments.

The remaining unrestricted balance of (\$3,566,000) is due to the net effects of implementing GASBs 68 and 75.

Governmental activities – Governmental activities decreased the City's total net by (8.5) percent during the year ended June 30, 2018, with expenditures exceeding revenues by (\$398,000), including transfers-out.

Business-type activities – Business-type activities decreased the City's total net position by (.34)

percent for the year with expenditures exceeding revenues by (\$16,000), including transfers-out.

A condensed summary of the City's statements of activities and changes in net position for the years ended June 30, 2018 and 2017 is presented below (dollars rounded):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue						
Program revenue:						
Charges for services	\$ 35,000	\$ 30,000	\$ 1,904,000	\$ 1,886,000	\$ 1,939,000	\$ 1,916,000
Operating grants and contributions	177,000	221,000	-	-	177,000	221,000
Capital grants and contributions	-	-	4,000	7,000	4,000	7,000
General revenue:						
Property taxes	1,773,000	1,831,000	-	-	1,773,000	1,831,000
Alcohol taxes	188,000	106,000	-	-	188,000	106,000
Occupational and net profits license fees	1,770,000	1,759,000	-	-	1,770,000	1,759,000
Franchise fees and miscellaneous	159,000	157,000	31,000	30,000	190,000	187,000
Total revenue	<u>4,102,000</u>	<u>4,104,000</u>	<u>1,939,000</u>	<u>1,923,000</u>	<u>6,041,000</u>	<u>6,027,000</u>
Program Expenses						
General government	615,000	636,000	-	-	615,000	636,000
Police	2,135,000	1,757,000	-	-	2,135,000	1,757,000
Streets	1,042,000	855,000	-	-	1,042,000	855,000
Fire	534,000	504,000	-	-	534,000	504,000
Interest on long-term debt	9,000	-	2,000	8,000	11,000	8,000
Water	-	-	1,732,000	1,557,000	1,732,000	1,557,000
Solid waste management	-	-	249,000	244,000	249,000	244,000
Wastewater management	-	-	137,000	129,000	137,000	129,000
Total program expenses	<u>4,335,000</u>	<u>3,752,000</u>	<u>2,120,000</u>	<u>1,938,000</u>	<u>6,455,000</u>	<u>5,690,000</u>
Excess (Deficiency) Before Transfers	(233,000)	352,000	(181,000)	(15,000)	(414,000)	337,000
Transfers	<u>(165,000)</u>	<u>(234,000)</u>	<u>165,000</u>	<u>234,000</u>	<u>-</u>	<u>-</u>
Change in Net Position	(398,000)	118,000	(16,000)	219,000	(414,000)	337,000
Net Position - Beginning*	<u>895,000</u>	<u>777,000</u>	<u>3,800,000</u>	<u>3,581,000</u>	<u>4,695,000</u>	<u>4,358,000</u>
Net Position - Ending	<u>\$ 497,000</u>	<u>\$ 895,000</u>	<u>\$ 3,784,000</u>	<u>\$ 3,800,000</u>	<u>\$ 4,281,000</u>	<u>\$ 4,695,000</u>

*As restated, June 30, 2017

Revenue – For the year ended June 30, 2018, total revenue of the City increased by \$14,000 when compared with that of the prior year. Revenue from governmental activities decreased by \$2,000 and revenue from business-type activities increased by \$16,000.

The change in revenue from governmental activities and business-type activities was minimal.

Program Expenses - For the year ended June 30, 2018, total expenses of the City increased by \$765,000 when compared with that of the prior year. Expenses of governmental activities

increased by \$583,000 and expenses of business-type activities increased by \$182,000.

The change in expenses of the governmental activities is due to an increase in operational spending of \$88,000, decrease in depreciation of (\$18,000), an increase in pension and OPEB of \$493,000, interest expense of \$9,000 and an increase in compensated absences of \$11,000.

The change in expenses of the business-type activities is attributed to an increase in operating expenses of \$50,000, an increase in pension and OPEB expense of \$128,000, a \$5,000 in depreciation expense and compensated absences each, and a decrease in interest expense of (\$6,000).

The City's Funds

Governmental Fund

The focus of the City's governmental fund financial statements is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at year end. At the end of the current fiscal year, the City's General Fund, its only governmental fund, reported an ending fund balance of \$2,059,000 which is all unassigned.

For the year ended June 30, 2018, the fund balance of the General Fund increased by \$370,000. The major contributing factors for the change are explained below.

- Tax revenues are the largest funding source for the City's General Fund making up 50 percent of the fund's total sources of revenue. During the year ended June 30, 2018, tax revenue increased by \$24,000 to \$1,961,000.
- The second largest funding source for the General Fund is the occupational and net profits license fees which account for 43 percent of the fund's total sources of revenue. Occupational and net profits license fees amounted to \$1,770,000 for the current reporting period. The City experienced an increase in this funding source of \$11,000 when compared with the prior year.
- Intergovernmental revenue is a funding source for the City's General Fund that fluctuates from year to year depending upon the availability of grant funds and the success of the City's grant application process. Intergovernmental grant revenue for the current reporting period totaled \$177,000 which is a decrease of (\$44,000) when compared with the prior year.
- Miscellaneous revenue can fluctuate from year to year. Miscellaneous revenue for the current year amounted to \$31,000 which is a decrease of (\$22,000) from the previous reporting period.
- Municipal road aid revenue totaled \$68,000 which is no change from the prior year.
- Franchise fee income increased during the current year to a total of \$93,000 which is an increase of \$55,000 from the previous reporting period.

- All the remaining sources of General Fund revenue were consistent with the prior year.
- There was a net increase in total expenditures of \$626,000 during the current reporting period. The net increase in total expenditures was mainly attributable to an increase of \$517,000 in capital outlay, a \$73,000 increase in the functional categories of expenditures and \$36,000 increase in debt serviced.
- The increases (decreases) in expenditures by functional category are general government (\$47,000); police \$13,000; streets \$88,000; and fire \$19,000.
- The increases (decreases) in capital outlay by functional categories of expenditures consist of general government \$0; police (\$63,000); streets \$4,000; and fire \$576,000.
- Transfers into the General Fund decreased (\$10,000) from the prior year and transfers out of the General Fund increased by \$55,000 during the current year.

Proprietary Funds

In the proprietary funds, the focus of the financial statements is to provide information on operating income, changes in fund net position, financial position, and cash flows. The City's major proprietary funds report information on the waterworks system, the solid waste management activities, and wastewater system.

Waterworks System

The Waterworks Fund had a net position at the end of the current year of \$2,828,000. The change in fund position was a decrease of (\$3,000) resulting from an operating loss of (\$189,000), non-operating expenses of (\$2,000), and net transfers in of \$188,000. Revenue from water sales increased by \$32,000, and total expenses increased by \$175,000 when compared with the prior year.

Solid Waste Management

The City's Solid Waste Management Fund had end of year net position of \$77,000. The change in fund position was a decrease of (\$31,000) due to operating income of \$10,000 and transfers out of (\$40,000). Total revenues decreased by (\$18,000) and total expenses increased by \$5,000 in comparison with the prior year.

Wastewater System

The Wastewater System had a net position at year-end of \$879,000. The change in fund position was an increase of \$17,000 resulting from operating loss of (\$4,000), net transfers in of \$17,000 and capital contributions from tap fees of \$4,000. Operating revenues of the fund increased by \$1,000 and operating expenses increased by \$8,000 when compared with the prior year.

General Fund Budgetary Highlights

The Budgetary Comparison Schedule that displays the original budget, final budget and actual results for the General Fund is located on page 45.

Significant variances identified between budgeted and actual amounts in the General Fund were:

- Budgeted revenue from occupational and net profits license fees exceeded actual amounts

by \$689,000. This is due from an over estimation by the City.

- The actual amount of revenue from taxes exceeded the budgeted amount by \$244,000, due to significantly higher income from alcohol sales than expected.
- General government operating expenditures were \$66,000 less than the amount budgeted.
- Police operating expenditures were \$124,000 less than the amount budgeted.
- Street operating expenditures were \$118,000 less than the amount budgeted.
- General and Street capital outlays were \$95,000 and \$153,000 less than budgeted amounts.
- The actual net transfers were \$247,000 less than the amount budgeted.

Capital Assets and Debt Administration

Capital Assets

The City had \$7,770,000 invested in capital assets, net of \$873,000 related debt for use in its governmental and business-type activities as described in the following schedule (thousands rounded). This represents a net increase (additions less disposals and depreciation) of \$187,000 (2.5 percent) from the end of last year.

	<u>Governmental</u>		<u>Business-type</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 269,000	\$ 269,000	\$ 148,000	\$ 148,000	\$ 417,000	\$ 417,000
Construction in progress	-	-	1,396,000	921,000	1,396,000	921,000
Non-depreciable building	-	-	-	-	-	-
Buildings	1,203,000	1,229,000	52,000	55,000	1,255,000	1,284,000
Vehicles and equipment	1,218,000	717,000	109,000	52,000	1,327,000	769,000
Office furniture & equipment	16,000	14,000	-	-	16,000	14,000
Streets and sidewalks	1,096,000	1,096,000	-	-	1,096,000	1,096,000
Water plant	-	-	1,469,000	1,408,000	1,469,000	1,408,000
Water distribution system	-	-	947,000	1,005,000	947,000	1,005,000
Wastewater system	-	-	720,000	708,000	720,000	708,000
Totals	<u>\$ 3,802,000</u>	<u>\$ 3,325,000</u>	<u>\$ 4,841,000</u>	<u>\$ 4,297,000</u>	<u>\$ 8,643,000</u>	<u>\$ 7,622,000</u>

This year's major additions to capital assets included:

- Street paving in the amount of \$79,000.
- Fire truck purchased in the amount of \$541,000.
- Additions to construction in progress related to the filter backwash wastewater treatment project and new water tanks of \$475,000.

Additional information on the City's capital assets can be found in the footnotes of this report.

Debt Administration

As of June 30, 2018, the City had total outstanding debt of \$878,000 which was incurred for its governmental and business-type activities as described in the schedule below (thousands rounded). This represents a net increase of \$834,000 from the end of last year.

	<u>Governmental</u>		<u>Business-type</u>		<u>Totals</u>	
	<u>Activities</u>		<u>Activities</u>			
	2018	2017	2018	2017	2018	2017
Note payable to bank	\$ 514,000	\$ -	\$ 359,000	\$ 39,000	\$ 873,000	\$ 39,000
Revenue bond payable	-	-	5,000	5,000	5,000	5,000
	<u>\$ 514,000</u>	<u>\$ -</u>	<u>\$ 364,000</u>	<u>\$ 44,000</u>	<u>\$ 878,000</u>	<u>\$ 44,000</u>

The City is also obligated for accrued compensated absences of \$174,000 as of year-end.

Additional information on the City's long-term liabilities can be found in the footnotes of this report.

Economic Factors

The City is currently planning a major project for the construction of a new water production facility and plans to finance the project through a loan program with the U.S. Department of Agriculture. The City has an unsecured line of credit with First & Peoples Bank in the amount of \$3,500,000 at prime less 1% for use with the project with no outstanding balance as of June 30, 2018. Expenses incurred in relation to the project have totaled \$845,606 as of June 30, 2018.

On June 12, 2017, the City adopted a resolution to enter into an agreement with the Commonwealth of Kentucky Transportation Cabinet and accept Federal funds for a sidewalk construction project in the amount of \$765,000. This involves an 80/20 funding agreement with the City being responsible for 20% amounting to \$153,000.

On November 30, 2017, the City approved the purchase of a new fire truck for \$541,380. The purchase was financed with a loan from First & Peoples Bank with an interest rate of 3.25% for a term of 10 years. The balance of the loan at June 30, 2018 was \$514,214.

The City has entered into a contract with Kentucky Engineering Group, PLLC for construction, inspection and administrative services related to a water storage tanks project. The fee for these services is based on a percentage of the total project cost and are estimated to be \$347,520. The estimated total project construction cost is \$2,842,000. As of June 30, 2018, expenses incurred in relation to the project totaled \$550,631. The project is being financed with a loan from First & Peoples Bank which had an outstanding balance of \$358,784 at June 30, 2018.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Clerk's Office at P.O. Box 394, Russell, Kentucky 41169 or call (606) 836-9666.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,716,434	\$ 219,662	\$ 1,936,096
Accounts receivable:			
Taxes & licenses	314,223	-	314,223
Intergovernmental	9,064	-	9,064
Other	19,482	-	19,482
Customers, net	-	152,668	152,668
Restricted assets -			
Cash and cash equivalents	10	77,553	77,563
Inventory	-	91,879	91,879
Nondepreciable capital assets	268,674	1,544,388	1,813,062
Depreciable capital assets	7,702,104	8,482,939	16,185,043
Accumulated depreciation	(4,168,466)	(5,186,165)	(9,354,631)
Total assets	<u>5,861,525</u>	<u>5,382,924</u>	<u>11,244,449</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred OPEB related	660,985	156,517	817,502
Deferred pension related	1,777,029	420,788	2,197,817
Total deferred outflows of resources	<u>2,438,014</u>	<u>577,305</u>	<u>3,015,319</u>
LIABILITIES			
Other accrued liabilities	-	14,188	14,188
Note payable	46,969	358,784	405,753
Customer deposits	-	51,280	51,280
Revenue bonds payable	-	5,000	5,000
Accrued compensated absences, non-current	123,527	50,014	173,541
Note payable, non-current	467,245	-	467,245
Net OPEB liability	1,760,111	416,782	2,176,893
Net pension liability	4,891,331	1,158,233	6,049,564
Total liabilities	<u>7,289,183</u>	<u>2,054,281</u>	<u>9,343,464</u>
DEFERRED INFLOW OF RESOURCES			
Deferred OPEB related	106,842	25,299	132,141
Deferred pension related	406,133	96,169	502,302
Total deferred inflow of resources	<u>512,975</u>	<u>121,468</u>	<u>634,443</u>
NET POSITION			
Net investment in capital assets	3,288,098	4,482,378	7,770,476
Restricted	10	77,553	77,563
Unrestricted	(2,790,727)	(775,451)	(3,566,178)
Total net position	<u>\$ 497,381</u>	<u>\$ 3,784,480</u>	<u>\$ 4,281,861</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 614,961	\$ -	\$ 17,848	\$ -	\$ (597,113)	\$ -	\$ (597,113)
Public safety:							
Police	2,135,159	1,690	90,826	-	(2,042,643)	-	(2,042,643)
Fire	534,588	33,600	-	-	(500,988)	-	(500,988)
Public works:							
Streets and roads	1,041,682	-	68,182	-	(973,500)	-	(973,500)
Interest on long-term debt	8,591	-	-	-	(8,591)	-	(8,591)
Total governmental activities	<u>4,334,981</u>	<u>35,290</u>	<u>176,856</u>	<u>-</u>	<u>(4,122,835)</u>	<u>-</u>	<u>(4,122,835)</u>
Business-Type Activities:							
Waterworks system	1,731,632	1,522,608	-	-	-	(209,024)	(209,024)
Solid waste management	248,550	258,095	-	-	-	9,545	9,545
Wastewater management	137,165	122,842	-	3,944	-	(10,379)	(10,379)
Interest on long-term debt	1,948	-	-	-	-	(1,948)	(1,948)
Total business-type activities	<u>2,119,295</u>	<u>1,903,545</u>	<u>-</u>	<u>3,944</u>	<u>-</u>	<u>(211,806)</u>	<u>(211,806)</u>
Total primary government	<u>\$ 6,454,276</u>	<u>\$ 1,938,835</u>	<u>\$ 176,856</u>	<u>\$ 3,944</u>	<u>\$ (4,122,835)</u>	<u>\$ (211,806)</u>	<u>\$ (4,334,641)</u>
General Revenues:							
Taxes -							
Property taxes, levied for general purposes					\$ 1,772,668	\$ -	\$ 1,772,668
Alcohol sales					187,893	-	187,893
Bank deposit franchise taxes					24,800	-	24,800
License fees							
Franchise					92,547	-	92,547
Occupational					1,769,890	-	1,769,890
Other licenses and permits					11,865	-	11,865
Interest income					2,835	496	3,331
Other revenues					27,348	30,873	58,221
Total general revenues					<u>3,889,846</u>	<u>31,369</u>	<u>3,921,215</u>
Transfers					(164,668)	164,668	-
Total general revenues and transfers					<u>3,725,178</u>	<u>196,037</u>	<u>3,921,215</u>
Change in net position					(397,657)	(15,769)	(413,426)
Net position, June 30, 2017, as restated					895,038	3,800,249	4,695,287
Net position, June 30, 2018					<u>\$ 497,381</u>	<u>\$ 3,784,480</u>	<u>\$ 4,281,861</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF RUSSELL, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Total Governmental Funds
Assets		
Cash and cash equivalents	\$ 1,716,434	\$ 1,716,434
Restricted cash and cash equivalents	10	10
Receivables:		
Occupational license fees	286,667	286,667
Property taxes	27,556	27,556
Intergovernmental	9,064	9,064
Other	19,482	19,482
Total assets	\$ 2,059,213	\$ 2,059,213
 Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ -	\$ -
Total liabilities	-	-
Fund Balances:		
Restricted	10	10
Unassigned	2,059,203	2,059,203
Total fund balances	2,059,213	2,059,213
Total liabilities and fund balances	\$ 2,059,213	\$ 2,059,213

The accompanying notes to financial statements are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balance - total governmental funds		\$ 2,059,213
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$7,970,778 net of accumulated depreciation of \$4,168,466 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		3,802,312
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows - OPEB	660,985	
Deferred outflows - Pension	1,777,029	
Deferred inflows - OPEB	(106,842)	
Deferred inflows - Pension	<u>(406,133)</u>	1,925,039
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Net OPEB liabilities		(1,760,111)
Net pension liabilities		(4,891,331)
Note payable		(514,214)
Compensated absences		<u>(123,527)</u>
Net position, end of year - Governmental Activities		<u><u>\$ 497,381</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General	Total Governmental Funds
	<u>General</u>	<u>Total Governmental Funds</u>
Revenues		
Taxes	\$ 1,985,362	\$ 1,985,362
Occupational and net profits license fees	1,769,890	1,769,890
Intergovernmental:		
Municipal road aid	68,182	68,182
Base court arrest fees	11,206	11,206
Kentucky Law Enforcement Foundation funds	65,255	65,255
Other	32,213	32,213
Franchise fees	92,547	92,547
Licenses and permits	11,865	11,865
Charges for services	35,290	35,290
Interest income	2,835	2,835
Other revenues	27,348	27,348
	<u>4,101,993</u>	<u>4,101,993</u>
Expenditures		
Current:		
General government	531,594	531,594
Police	1,594,099	1,594,099
Street	798,430	798,430
Fire	389,636	389,636
Capital outlay	759,144	759,144
Debt service	36,000	36,000
	<u>4,108,903</u>	<u>4,108,903</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,910)</u>	<u>(6,910)</u>
Other Financing Sources (Uses)		
Loan proceeds	541,623	541,623
Transfers in	20,000	20,000
Transfers out	<u>(184,668)</u>	<u>(184,668)</u>
Total other financing sources (uses)	<u>376,955</u>	<u>376,955</u>
Net change in fund balances	370,045	370,045
Fund balances beginning of year	<u>1,689,168</u>	<u>1,689,168</u>
Fund balances end of year	<u>\$ 2,059,213</u>	<u>\$ 2,059,213</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF RUSSELL, 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, 2018

Net change in fund balances - total governmental funds	\$ 370,045
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital asset purchases capitalized	759,144
Depreciation expense	(282,260)
<p>Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.</p>	
CERS pension and OPEB contributions	(9,318)
Pension and OPEB expense	(710,269)
<p>The issuance of long-term debt are recognized as revenues in the fund financial statements, but are increases in liabilities in the statement of net position.</p>	
	(541,623)
<p>Payments on on long-term debt are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.</p>	
	27,409
<p>Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for accrued compensated absences.</p>	
	<u>(10,785)</u>
Change in net position of governmental activities	<u>\$ (397,657)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

Business-Type Activities - Enterprise Funds

ASSETS	Waterworks System	Solid Waste Management	Wastewater System	Total
Current assets:				
Cash, including time deposits	\$ 109,586	\$ 23,192	\$ 86,884	\$ 219,662
Accounts receivable, net	142,667	-	10,001	152,668
Inventory	91,879	-	-	91,879
Total current assets	344,132	23,192	96,885	464,209
Non-current assets:				
Restricted cash and cash equivalents	77,553	-	-	77,553
Capital Assets				
Nondepreciable capital assets	1,544,388	-	-	1,544,388
Depreciable capital assets	7,242,669	138,595	1,101,675	8,482,939
Accumulated depreciation	(4,782,280)	(84,295)	(319,590)	(5,186,165)
Total non-current assets	4,082,330	54,300	782,085	4,918,715
Total assets	4,426,462	77,492	878,970	5,382,924
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - OPEB related	156,517	-	-	156,517
Deferred outflows - pension related	420,788	-	-	420,788
Total deferred outflows of resources	577,305	-	-	577,305
LIABILITIES				
Current Liabilities:				
Other accrued liabilities	14,188	-	-	14,188
Note payable	358,784	-	-	358,784
Customer deposits	51,280	-	-	51,280
Revenue Bonds payable	5,000	-	-	5,000
Total current liabilities	429,252	-	-	429,252
Non-current liabilities:				
Compensated absences	50,014	-	-	50,014
Net OPEB liability	416,782	-	-	416,782
Net pension liability	1,158,233	-	-	1,158,233
Total non-current liabilities	1,625,029	-	-	1,625,029
Total liabilities	2,054,281	-	-	2,054,281
DEFERRED INFLOW OF RESOURCES				
Deferred inflows - OPEB related	25,299	-	-	25,299
Deferred inflows - pension related	96,169	-	-	96,169
Total deferred inflow of resources	121,468	-	-	121,468
NET POSITION				
Net investment in capital assets	3,645,993	54,300	782,085	4,482,378
Restricted	77,553	-	-	77,553
Unrestricted	(895,528)	23,192	96,885	(775,451)
Total net position	\$ 2,828,018	\$ 77,492	\$ 878,970	\$ 3,784,480

The accompanying notes to financial statements are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Total</u>
	<u>Waterworks System</u>	<u>Solid Waste Management</u>	<u>Wastewater System</u>	
OPERATING REVENUES				
Water revenue	\$ 1,484,608	\$ -	\$ -	\$ 1,484,608
Sanitation fees	-	258,095	-	258,095
Sewer revenue	-	-	122,842	122,842
Service labor	38,000	-	-	38,000
Penalties	14,170	-	10,326	24,496
Other income	6,260	-	117	6,377
Total operating revenues	<u>1,543,038</u>	<u>258,095</u>	<u>133,285</u>	<u>1,934,418</u>
OPERATING EXPENSES				
Salaries, wages and employee benefits	991,535	665	-	992,200
Contractual services	57,484	238,399	88,208	384,091
Utilities	176,191	1,130	3,395	180,716
Uniforms	5,222	-	-	5,222
Training	3,621	-	-	3,621
Materials and supplies	195,911	425	7,360	203,696
Repairs and maintenance	104,953	-	2,391	107,344
Insurance	30,913	5,000	5,000	40,913
Miscellaneous	4,865	22	261	5,148
Depreciation	160,937	2,909	30,550	194,396
Total operating expenses	<u>1,731,632</u>	<u>248,550</u>	<u>137,165</u>	<u>2,117,347</u>
OPERATING INCOME (LOSS)	<u>(188,594)</u>	<u>9,545</u>	<u>(3,880)</u>	<u>(182,929)</u>
NON-OPERATING REVENUES (EXPENSES) AND TRANSFERS				
Interest income	255	96	145	496
Transfers in	187,700	-	16,968	204,668
Transfers out	-	(40,000)	-	(40,000)
Interest expense	(1,948)	-	-	(1,948)
Total non-operating revenues (expenses) and transfers	<u>186,007</u>	<u>(39,904)</u>	<u>17,113</u>	<u>163,216</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(2,587)</u>	<u>(30,359)</u>	<u>13,233</u>	<u>(19,713)</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>-</u>	<u>3,944</u>	<u>3,944</u>
CHANGE IN NET POSITION	<u>(2,587)</u>	<u>(30,359)</u>	<u>17,177</u>	<u>(15,769)</u>
NET POSITION, JUNE 30, 2017, as restated	<u>2,830,605</u>	<u>107,851</u>	<u>861,793</u>	<u>3,800,249</u>
NET POSITION, JUNE 30, 2018	<u>\$ 2,828,018</u>	<u>\$ 77,492</u>	<u>\$ 878,970</u>	<u>\$ 3,784,480</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Waterworks System</u>	<u>Solid Waste Management</u>	<u>Wastewater System</u>	<u>Total</u>
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,546,114	\$ 258,095	\$ 133,285	\$ 1,937,494
Cash payments to suppliers for goods and services	(574,631)	(244,976)	(107,372)	(926,979)
Cash payments to employees for services and benefits	(858,053)	(665)	-	(858,718)
Net cash provided by (used for) operating activities	<u>113,430</u>	<u>12,454</u>	<u>25,913</u>	<u>151,797</u>
Cash Flows from Noncapital Financing Activities				
Transfers in	187,700	-	16,968	204,668
Transfers out	-	(40,000)	-	(40,000)
Net cash provided by (used for) noncapital financing activities	<u>187,700</u>	<u>(40,000)</u>	<u>16,968</u>	<u>164,668</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets	(663,140)	-	(75,264)	(738,404)
Interest paid on bank loan	(1,948)	-	-	(1,948)
Proceeds from loan	319,476	-	-	319,476
Change in customer deposits	(302)	-	-	(302)
Principal payments on loans	-	-	-	-
Capital grants received	-	-	3,944	3,944
Net cash provided by (used for) capital and related financing activities	<u>(345,914)</u>	<u>-</u>	<u>(71,320)</u>	<u>(417,234)</u>
Cash Flows from Investing Activities				
Interest income	255	96	145	496
Net cash provided by investing activities	<u>255</u>	<u>96</u>	<u>145</u>	<u>496</u>
Net increase (decrease) in cash and cash equivalents	(44,529)	(27,450)	(28,294)	(100,273)
Cash and cash equivalents, June 30, 2017	231,668	50,642	115,178	397,488
Cash and cash equivalents, June 30, 2018	<u>\$ 187,139</u>	<u>\$ 23,192</u>	<u>\$ 86,884</u>	<u>\$ 297,215</u>
Cash and Cash Equivalents Reported As:				
Unrestricted	\$ 109,586	\$ 23,192	\$ 86,884	\$ 219,662
Restricted	77,553	-	-	77,553
	<u>\$ 187,139</u>	<u>\$ 23,192</u>	<u>\$ 86,884</u>	<u>\$ 297,215</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating income (loss)	\$ (188,594)	\$ 9,545	\$ (3,880)	\$ (182,929)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	160,937	2,909	30,550	194,396
Net pension and OPEB expense	128,185	-	-	128,185
Changes in assets and liabilities:				
Accounts receivable	12,938	-	(757)	12,181
Inventories	(4,529)	-	-	(4,529)
Accrued liabilities	(805)	-	-	(805)
Compensated absences	5,298	-	-	5,298
Total adjustments	<u>302,024</u>	<u>2,909</u>	<u>29,793</u>	<u>334,726</u>
Net cash provided by operating activities	<u>\$ 113,430</u>	<u>\$ 12,454</u>	<u>\$ 25,913</u>	<u>\$ 151,797</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Agency Funds
Assets	
Cash - FADE	\$ 44,696
Cash - payroll withholding accounts	<u>-</u>
Total Assets	<u>44,696</u>
Liabilities	
FADE Funds	44,696
Payroll withholdings payable	<u>-</u>
Total Liabilities	<u>44,696</u>
Net Position	<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF RUSSELL, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Russell, Kentucky (the “City”) was incorporated under the statutes of the Commonwealth of Kentucky and operates under an elected Mayor-Council form of government. The City provides the following services: public protection, street maintenance, water, solid waste management, and wastewater management. The City is the primary government and has no component units.

Accounting Principles

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Basic Financial Statements

The basic financial statements consist of the following:

Government-wide financial statements,
Fund financial statements, and
Notes to the financial statements

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure / expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditure/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund – The General Fund is the primary operating fund of the City and is always considered a major fund. It is used to account for all the activities except those legally or administratively required to be accounted for in other funds.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and measurement of financial activity focuses on net income similar to the private sector. The reporting entity includes the City of Russell Waterworks Fund, Solid Waste Management Fund, and Wastewater Fund. All of these funds are considered major funds.

Fiduciary Funds:

Agency Fund – Agency funds are used to account for assets held by the City as an agent for other governments. The City's responsibility is custodial in nature, and is to hold these assets and remit them to the other governments. These funds are therefore not included in the government-wide financial statements. The agency funds of the City consist of the FADE Fund and the Payroll Withholding Fund.

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the “economic resources” measurement focus as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. The governmental fund utilizes a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on its balance sheet. Its operating statement presents sources and uses of available spendable financial resources during a given period. This fund uses fund balance as its measure of available spendable financial resources at the end of the period.
- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in fund

net position, financial position, and cash flows. All assets, deferred outflows, and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The City deposits its operating cash in demand deposit accounts, interest bearing checking accounts, and savings accounts at local financial institutions. Cash in excess of current requirements is invested in certificates of deposit which are considered cash equivalents. Cash deposits are reported at carrying amounts which reasonably estimate fair value. For the purpose of the Statement of Net Position, “cash, including time deposits” includes all demand accounts, savings accounts, and certificates of deposit of the City. For the purpose of the propriety funds Statement of Cash Flows, “cash and cash equivalents” includes all demand accounts, savings accounts and certificates of deposit.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include occupational license fees, property taxes and grants. Business-type activities report utility accounts as their major receivables.

In fund financial statements, material receivables in governmental funds include revenue accruals such as occupational license fees, property taxes and grants since they are usually both measurable and available. Propriety fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable make up the propriety fund receivables.

Inventories

The inventories of the business-type activities and the proprietary fund consist of chemicals, repair parts, and other supplies. Inventories are valued at cost using the first-in, first out method.

Capital Assets

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide statements, all capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

The City has elected not to report major general infrastructure assets retroactively; and therefore, infrastructure assets constructed prior to July 1, 2003 are not included in the City's financial statements.

Depreciation of all exhaustible capital assets and new infrastructure assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>ASSET</u>	<u>YEARS</u>
Buildings and Improvements	15 - 50
Vehicles and Equipment	3 - 7
Office Furniture and Equipment	5 - 20
Water Plant	20 - 50
Water Distribution System	20 - 50
Wastewater System	20 - 50
Street Paving	20

In fund financial statements, capital assets, including infrastructure used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

Restricted Assets

Restricted assets include time deposits of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt agreements of the waterworks system and water customers' utility deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the related assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as a liability in the government-wide statements. Long-term debt includes accrued compensated absences and the net pension liability.

Long-term debt of the governmental fund is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest

reported as expenditures in the fund financial statements.

The accounting for long-term debt in the proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Equity Classifications

In the government-wide statements, equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

In fund financial statements, governmental fund equity is classified as fund balance. Fund balance is further classified into five components:

- a. Nonspendable – amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
- b. Restricted – amounts to be used for specific purposes as determined by enabling legislation or imposed by grantors or debt covenants.
- c. Committed – amounts to be used for specific purposes as determined by Council resolution.
- d. Assigned – amounts intended to be used for certain purposes as determined by Council resolution or by an official to whom that authority has been given by the governing body pursuant to the City's Fund Balance Policy.
- e. Unassigned – residual balances in the General Fund that have not been restricted, committed, or assigned.

Revenues, Expenditures, and Expenses

Program Revenues

In the City's government-wide Statement of Activities, program revenues are categorized as either "charges for services", "operating grants and contributions", or "capital grants and contributions". Charges for services for governmental activities include fees for licenses and permits, court costs, charges for accident reports, and charges for fire protection. Operating grants and contributions for governmental activities include intergovernmental subsidies consisting of law enforcement grant reimbursements, FADE task force reimbursements, Federal seizure funds, economic assistance funds, and fire grant reimbursements. Capital grants and contributions for governmental activities include intergovernmental subsidies consisting of a Community Development Block Grant, a Federal reimbursement grant for sidewalks, municipal road aid, and miscellaneous smaller grants. Charges for services for business-type activities include charges to customers for water, solid waste collection and wastewater management.

Property Taxes

The City is responsible for assessing and collecting property taxes in accordance with enabling state legislation. Property taxes are levied annually on November 30 and are due by February 1. The lien date for real property is March 1. Collection dates for property taxes are December 1 through March 1. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Due to the immaterial amount of any additional property taxes receivable collected after the 60-day period, no additional accrual is made in the government-wide financial statements.

Occupational License Fees

The City enacted an ordinance providing for .875 of one percent occupational license fee on all salaries, wages, commissions, and other compensation earned for work done or services performed or rendered in the City. The same ordinance also provides for a net business profits license fee. The net business profits license fee is the greater of one-hundred dollars or .875 of one percent of the net profits of a business, profession, or other enterprise that are derived from activity in the City. Employers are required to withhold the occupational license fees from employees' wages and remit them to the City on a quarterly basis if such fees are three thousand dollars or less for the quarter. If the occupational license fees due exceed three thousand dollars, the employer is required to remit the fees monthly. The minimum one-hundred dollar net business profits license fee is billed by the City on an annual basis. Businesses are required to make estimated license fee payments on a quarterly basis.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures / Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Fund – by character:

- Current operating (classified by function)
- Capital outlay (classified by function)
- Debt service (classified as principal and interest)

Proprietary Funds – by operating and nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

Interfund Transfers

During the course of normal operations, the City transfers cash between its general fund and proprietary funds. These transfers are considered to be permanent reallocations of resources. All such internal activity is eliminated in the government-wide Statement of Activities.

Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amount reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Pension

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure

requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. See Note 14 for the effect of this adoption on beginning net position.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (“GASB 84”). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (“GASB 85”), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

See Note 14 for the effect of this adoption on the beginning net position.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (“GASB 86”), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired.

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB 87”), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (“GASB 88”), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the City beginning with its year ending June 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB 89”), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the City beginning with its year ending June 30, 2021.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP), except that encumbrances are treated as budgeted expenditures in the year in which the commitment to purchase is made, and new capital leases are not budgeted. The budget ordinance approved by the Council establishes appropriations for the General Fund. The total of all appropriations within a department are defined as a budget item and form the legal level of budgetary control, as defined in the budget ordinance.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned, or the City will not be able to recover collateral securities in the possession of an outside party.

The City's policies for deposits and investments are based on statutes and are summarized below.

All deposits in financial institutions must be fully insured or collateralized with securities having a current market value at least equal to any uninsured deposits. Uninsured deposits can only be collateralized with securities and other obligations described at Section 66.480 of the Kentucky Revised Statutes.

Kentucky Revised Statute 66.480 authorizes the City to invest in obligations of the United States and its agencies; certificates of deposit or interest-bearing accounts at banks or savings and loan institutions insured by the FDIC; uncollateralized certificates of deposit, bankers acceptances, or commercial paper issued by any bank or savings and loan institution rated in the highest three categories by a nationally recognized rating agency; bonds or certificates of indebtedness of the Commonwealth of Kentucky and its agencies; securities issued by a state or local government or their agencies rated in the highest three categories by a nationally recognized rating agency; and shares in mutual funds under certain conditions.

At June 30, 2018, the carrying amount of deposits in the City's name with financial institutions was \$2,058,355 and the bank balance was \$2,874,470. Of the bank balance, \$358,649 was covered by federal depository insurance, with the remainder being uninsured but collateralized by securities held by the pledging financial institution's trust department or agent, in the City's name.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivables of the governmental activities consist of occupational license fees, intergovernmental receivables, and property taxes. Accounts receivables of the business-type activities consist of utility receivables. Receivables detail at June 30, 2018, is as follows:

	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Occupational license fees	\$ 286,667	\$ -	\$ 286,667
Intergovernmental receivables	9,064	-	9,064
Property taxes	27,556	-	27,556
Other	19,482	-	19,482
Utility receivables	-	152,668	152,668
Total	<u>\$ 342,769</u>	<u>\$ 152,668</u>	<u>\$ 495,437</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 268,674	\$ -	\$ -	\$ 268,674
Depreciable Assets:				
Buildings	1,823,786	15,194	-	1,838,980
Vehicles and equipment	3,452,451	654,782	-	4,107,233
Furnishings and office equipment	92,666	10,500	-	103,166
Infrastructure	<u>1,574,057</u>	<u>78,668</u>	<u>-</u>	<u>1,652,725</u>
Totals at historical cost	<u>7,211,634</u>	<u>759,144</u>	<u>-</u>	<u>7,970,778</u>
Less accumulated depreciation for:				
Buildings	595,049	40,956	-	636,005
Vehicles and equipment	2,734,393	154,768	-	2,889,161
Furnishings and office equipment	79,328	7,833	-	87,161
Infrastructure	<u>477,436</u>	<u>78,703</u>	<u>-</u>	<u>556,139</u>
Total accumulated depreciation	<u>3,886,206</u>	<u>282,260</u>	<u>-</u>	<u>4,168,466</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,325,428</u>	<u>\$ 476,884</u>	<u>\$ -</u>	<u>\$ 3,802,312</u>
Business-type Activities				
Non-Depreciable Assets:				
Land	\$ 148,151	\$ -	\$ -	\$ 148,151
Construction in progress	921,042	475,195	-	1,396,237
Depreciable Assets:				
Buildings	86,649	-	-	86,649
Equipment	577,295	80,237	(96,173)	561,359
Waterplant	3,434,325	151,004	-	3,585,329
Water distribution system	3,317,568	-	-	3,317,568
Wastewater system	<u>900,066</u>	<u>31,968</u>	<u>-</u>	<u>932,034</u>
Totals at historical cost	<u>9,385,096</u>	<u>738,404</u>	<u>(96,173)</u>	<u>10,027,327</u>
Less accumulated depreciation for:				
Buildings	32,413	2,166	-	34,579
Equipment	524,542	23,896	(96,173)	452,265
Waterplant	2,025,432	91,053	-	2,116,485
Water distribution system	2,313,171	57,348	-	2,370,519
Wastewater system	<u>192,384</u>	<u>19,933</u>	<u>-</u>	<u>212,317</u>
Total accumulated depreciation	<u>5,087,942</u>	<u>194,396</u>	<u>(96,173)</u>	<u>5,186,165</u>
Business-type Activities Capital Assets, Net	<u>\$ 4,297,154</u>	<u>\$ 544,008</u>	<u>\$ -</u>	<u>\$ 4,841,162</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 33,546
Police	40,051
Streets	106,494
Fire	102,169
Total governmental activities depreciation expense	<u>\$ 282,260</u>
Business-type Activities:	
Water	\$ 160,937
Solid waste management	2,909
Wastewater management	30,550
Total business-type activities depreciation expense	<u>\$ 194,396</u>

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Note payable	\$ -	\$ 541,623	\$ (27,409)	\$ 514,214	\$ 46,969
Other Liabilities:					
Compensated absences	<u>112,743</u>	<u>10,784</u>	<u>-</u>	<u>\$ 123,527</u>	<u>-</u>
Governmental Activities					
Long-Term Liabilities	<u>\$ 112,743</u>	<u>\$ 552,407</u>	<u>\$ (27,409)</u>	<u>\$ 637,741</u>	<u>\$ 46,969</u>
Business-type Activities					
Water revenue bond	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ 5,000
Note payable	39,309	382,242	(62,767)	358,784	358,784
Other Liabilities:					
Compensated absences	<u>44,716</u>	<u>6,469</u>	<u>-</u>	<u>51,185</u>	<u>1,171</u>
Business-type Activities					
Long-Term Liabilities	<u>\$ 89,025</u>	<u>\$ 388,711</u>	<u>\$ (62,767)</u>	<u>\$ 414,969</u>	<u>\$ 364,955</u>

The \$5,000 water revenue bond payable is a matured coupon bond that has yet to be turned in for payment.

Conduit Debt Obligations

From time to time, the City has issued Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying loan agreements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2018, there was one series of Revenue Bonds outstanding; however, these bonds were defeased subsequent to year-end on December 17, 2018.

NOTE 7 - NOTE PAYABLE

In December, 2017, the City obtained a loan from First and Peoples Bank with an interest rate of 3.25% for a term of 10 years to purchase a fire truck. As of June 30, 2018, the City had a balance of \$514,214.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for bonds, notes and capital leases as of June 30, 2018 are as follows:

Governmental Activities:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 46,969	\$ 16,017	\$ 62,986
2020	48,519	14,467	62,986
2021	50,119	12,867	62,986
2022	51,773	11,213	62,986
2023	53,481	9,505	62,986
2024 - 2028	263,353	20,082	283,435
	<u>\$ 514,214</u>	<u>\$ 84,151</u>	<u>\$ 598,365</u>

NOTE 8 - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018 are comprised of the following:

	Transfers <u>In</u>	Transfers <u>Out</u>	<u>Net</u>
Governmental Activities:			
General Fund			
Waterworks Fund	\$ -	\$ (152,700)	\$ (152,700)
Wastewater Fund	-	(31,968)	(31,968)
Solid Waste Management Fund	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total Governmental Activities	<u>\$ 20,000</u>	<u>\$ (184,668)</u>	<u>\$ (164,668)</u>
Business-Type Activities:			
Waterworks Fund			
General Fund	\$ 152,700	\$ -	\$ 152,700
Wastewater Fund	15,000	-	15,000
Solid Waste Fund	20,000	-	20,000
Solid Waste Fund			
General Fund	-	(20,000)	(20,000)
Waterworks Fund	-	(20,000)	(20,000)
Wastewater Fund			
General Fund	31,968	-	31,968
Waterworks Fund	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Total Business-Type Activities	<u>\$ 219,668</u>	<u>\$ (55,000)</u>	<u>\$ 164,668</u>

Transfers are used to move unrestricted revenues among the funds to finance various programs or activities.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

On June 12, 2017, the City adopted a resolution to enter into an agreement with the Commonwealth of Kentucky Transportation Cabinet and accepting Federal funds for a sidewalk construction project in the amount of \$765,000. This involves an 80/20 funding agreement with the City being responsible for 20% amounting to \$153,000.

The City has entered into a contract with Kentucky Engineering Group, PLLC for construction inspection and administrative services related to a water storage tanks project. The fee for these services is based on a percentage of the total project cost and are estimated to be \$347,520. The estimated total project construction cost is \$2,842,000. As of June 30, 2018, expenses incurred in relation to the project totaled \$358,784.

The City is a defendant in a legal action related to property taxes. Management believes that this action is without merit and intends to defend the matter vigorously. Currently, the likelihood of an unfavorable outcome and any estimate of loss cannot be determined.

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City provides for risk financing by purchasing coverage from commercial insurance companies. The City purchases workers compensation coverage from Kentucky Employers' Mutual Insurance (KEMI), a non-profit, independent, self-supporting de jure municipal corporation and political subdivision of the Commonwealth of Kentucky.

The contract with KEMI is a retrospectively rated contract. The premiums under this contract are estimated based on the ultimate cost of the experience to date of the group of entities participating. KEMI performs an annual payroll audit of the City and the premiums are then adjusted based on actual experience.

NOTE 11 - ECONOMIC DEPENDENCY

The waterworks activity of the City sells a substantial portion of its water to three major customers. During the year ended June 30, 2018, sales to those major customers aggregated \$715,498. At June 30, 2018, amounts due from those major customers included in accounts receivable, were \$75,209.

NOTE 12 – PENSION PLANS

Plan description: Substantially all full-time employees of the City participate in the County Employees Retirement System ("CERS"). This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous or hazardous positions of each county, city and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% nonhazardous and 8% hazardous (6.00% and 9.00% for employees hired after September 1, 2008, respectively) of their salary through payroll deductions. The City's contractually required contribution rate for the year ended June 30, 2018 was 19.18% for nonhazardous (14.48%-pension, 4.70%-insurance) and 31.55% for hazardous (22.20% pension, 9.35% insurance) of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees. Contributions to the pension plan from the City were \$344,828 for the year ended June 30, 2018.

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

At June 30, 2018, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2017. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. The City's proportion

of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2017. At June 30 2017, the City's proportion for nonhazardous and hazardous was .04% and .17%, respectively.

For the year ended June 30, 2018, the City recognized pension expense of \$772,730. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ 2,782	\$ 56,932
Changes of assumptions	413,860	-
Net difference between projected and actual earnings on investments	177,628	149,887
Changes in proportion and differences between City contributions and proportionate share of contributions	5,986	79,057
City contributions subsequent to the measurement date	<u>146,758</u>	<u>-</u>
	<u>\$ 747,014</u>	<u>\$ 285,876</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ 139,627	\$ -
Changes of assumptions	759,360	-
Net difference between projected and actual earnings on investments	249,692	216,426
Changes in proportion and differences between City contributions and proportionate share of contributions	104,054	-
City contributions subsequent to the measurement date	<u>198,070</u>	<u>-</u>
	<u>\$ 1,450,803</u>	<u>\$ 216,426</u>

At June 30, 2018, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$146,758 and \$198,070 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	<u>Nonhazardous</u>	<u>Hazardous</u>
2019	\$ 136,245	\$ 445,518
2020	141,332	463,717
2021	65,602	168,609
2022	(28,799)	(41,537)
	<u>\$ 314,380</u>	<u>1,036,307</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2017. The financial reporting actuarial valuation as of June 30, 2017, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	5-year smoothed market
Payroll Growth	2.00%
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

The following change of assumptions were adopted by the Board of Trustees and reflected in the liability measurement as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

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.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%

Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	100.0%	6.56%

**Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan*

Discount Rate: The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City'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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
City's proportionate share of the net pension liability			
Nonhazardous	\$ 2,828,670	\$ 2,242,812	\$ 1,752,745
Hazardous	\$ 4,786,301	\$ 3,806,752	\$ 2,997,787

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2018, there were no payables to CERS for nonhazardous and hazardous, which includes pension and OPEB contributions.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLANS

County Employees Retirement System Insurance Fund

Plan description: The County Employees Retirement System ("CERS") Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2018, CERS allocated 4.70% of the 19.18% nonhazardous and 9.35% of the 31.55% hazardous actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2018, the City contributed \$47,636 and \$83,421 to the CERS Nonhazardous and Hazardous Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund

At June 30, 2018, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2017. At June 30 2017, the City's proportion for nonhazardous and hazardous was 0.04% and 0.17%, respectively.

For the year ended June 30, 2018, the City recognized OPEB expense of \$170,860, including an implicit subsidy of \$4,587. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Nonhazardous</u>		
Differences between expected and actual experience	\$ -	\$ 2,139
Changes of assumptions	167,613	-
Net difference between projected and actual earnings on investments	-	36,404
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1,788
City contributions subsequent to the measurement date	47,636	-
	<u>\$ 215,249</u>	<u>\$ 40,331</u>
<u>Hazardous</u>		
Differences between expected and actual experience	\$ -	\$ 3,278
Changes of assumptions	518,832	-
Net difference between projected and		

actual earnings on investments	-	88,252
Changes in proportion and differences between City contributions and proportionate share of contributions	-	280
City contributions subsequent to the measurement date	83,421	-
	<u>\$ 602,253</u>	<u>\$ 91,810</u>

At June 30, 2018, the City reported deferred outflows of resources related to OPEB for City contributions subsequent to the measurement date of \$47,636 and \$83,421 for nonhazardous and hazardous, respectively. These contributions will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in OPEB expense as follows:

Year	Nonhazardous	Hazardous
2019	\$ 21,900	\$ 123,495
2020	21,900	123,495
2021	21,900	123,495
2022	21,900	56,537
2023	31,001	-
Thereafter	8,681	-
	<u>\$ 127,282</u>	<u>\$ 427,022</u>

Actuarial Methods and Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the below tables.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity*	17.5%	5.97%
International Equity*	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate*	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return*	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
Total	<u>100.0%</u>	6.56%

**Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan*

Discount rate - The discount rate used to measure the total OPEB liability was 5.84%. 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 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the Nonhazardous CERS Insurance Fund, calculated using the discount rate of 5.84%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.84%) or 1-percentage-point higher (6.84%) than the current rate:

	<u>1% Decrease (4.84%)</u>	<u>Current discount rate (5.84%)</u>	<u>1% Increase (6.84%)</u>
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 980,168	\$ 770,303	\$ 595,662

The following table presents the City's proportionate share of the collective net OPEB liability of the Hazardous CERS Insurance Fund, calculated using the discount rate of 5.96%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.96%) or 1-percentage-point higher (6.96%) than the current rate:

	1% Decrease (4.96%)	Current discount rate (5.96%)	1% Increase (6.96%)
City's proportionate share of the net OPEB liability			
Hazardous	\$ 1,885,023	\$ 1,406,590	\$ 1,015,153

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current trend rate	1% Increase
City's proportionate share of the net OPEB liability			
Nonhazardous	\$ 2,062,088	\$ 770,303	\$ 1,003,565
Hazardous	\$ 995,703	\$ 1,406,590	\$ 1,915,124

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the OPEB plan: At June 30, 2018, there were no payables to CERS, which includes pension and OPEB contributions.

NOTE 14 - CHANGE IN ACCOUNTING PRINCIPLE

Net position as of June 30, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and as amended by GASB Statement No. 85, *Omnibus 2017*.

	Governmental Activities	Business-Type Activities	Total
Net Position as previously reported at June 30, 2017	\$ 1,962,858	\$ 4,053,101	\$ 6,015,959
Prior period adjustment implementation of GASB 75:			
Net OPEB (measurement date as of June 30, 2017)	(1,168,095)	(276,597)	(1,444,692)
Deferred outflows City contributions made during fiscal year 2017	100,275	23,745	124,020
Total prior period adjustment for GASB 75	(1,067,820)	(252,852)	(1,320,672)
Net position as restated, June 30, 2017	\$ 895,038	\$ 3,800,249	\$ 4,695,287

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF RUSSELL, KENTUCKY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Taxes	\$ 1,815,000	\$ 56,867	\$ 1,871,867	\$ 1,985,362	\$ 113,495
Occupational and net profits license fees	2,450,000	-	2,450,000	1,769,890	(680,110)
Intergovernmental:					
Municipal road aid	70,000	-	70,000	68,182	(1,818)
Base court arrest fees	15,000	-	15,000	11,206	(3,794)
Kentucky Law Enforcement Foundation funds	66,000	-	66,000	65,255	(745)
Other	44,000	-	44,000	32,213	(11,787)
Franchise fees	83,000	-	83,000	92,547	9,547
Licenses and permits	6,200	-	6,200	11,865	5,665
Charges for services	34,800	-	34,800	35,290	490
Interest	1,000	-	1,000	2,835	1,835
Miscellaneous	34,750	-	34,750	27,348	(7,402)
Total Revenues	<u>4,619,750</u>	<u>56,867</u>	<u>4,676,617</u>	<u>4,101,993</u>	<u>(574,624)</u>
Expenditures					
Current operating:					
General government	599,911	-	599,911	531,594	68,317
Police	1,718,100	-	1,718,100	1,594,099	124,001
Streets	981,850	(65,000)	916,850	798,430	118,420
Fire	428,911	7,150	436,061	389,636	46,425
Capital outlay:					
General government	95,000	-	95,000	-	95,000
Police	70,000	-	70,000	56,107	13,893
Streets	200,000	75,000	275,000	121,963	153,037
Fire	-	541,380	541,380	581,074	(39,694)
Debt service:					
Principal	-	36,000	36,000	27,409	8,591
Interest	-	-	-	8,591	(8,591)
Total Expenditures	<u>4,093,772</u>	<u>594,530</u>	<u>4,688,302</u>	<u>4,108,903</u>	<u>579,399</u>
Excess of Revenues Over (Under) Expenditures	<u>525,978</u>	<u>(537,663)</u>	<u>(11,685)</u>	<u>(6,910)</u>	<u>4,775</u>
Other Financing Sources (Uses)					
Loan proceeds	-	541,380	541,380	541,623	243
Transfers in	130,000	-	130,000	20,000	(110,000)
Transfers out	(675,000)	-	(675,000)	(184,668)	490,332
Total other financing sources (uses)	<u>(545,000)</u>	<u>541,380</u>	<u>(3,620)</u>	<u>376,955</u>	<u>380,575</u>
Net change in fund balance	(19,022)	3,717	(15,305)	370,045	385,350
Fund balance beginning of year	1,689,168	-	1,689,168	1,689,168	-
Fund balance end of year	<u>\$ 1,670,146</u>	<u>\$ 3,717</u>	<u>\$ 1,673,863</u>	<u>\$ 2,059,213</u>	<u>\$ 385,350</u>

**CITY OF RUSSELL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)	
	2018 (2017)		2017 (2016)		2016 (2015)		2015 (2014)	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
Pension:								
City's proportion of the net pension liability	0.0400%	0.1700%	0.0400%	0.1656%	0.0420%	0.1587%	0.0408%	0.1553%
City's proportionate share of the net pension liability	\$ 2,242,812	\$ 3,806,752	\$ 1,968,818	\$ 2,840,736	\$ 1,803,929	\$ 2,435,984	\$ 1,324,000	\$ 1,867,000
City's covered-employee payroll	\$ 911,772	\$ 957,696	\$ 953,942	\$ 860,678	\$ 978,903	\$ 811,693	\$ 936,340	\$ 786,620
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.984%	397.491%	206.388%	330.058%	184.281%	300.111%	141.402%	237.345%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	49.80%	55.50%	53.95%	59.97%	57.52%	66.80%	63.46%
OPEB:								
City's proportion of the net pension liability	0.0400%	0.1700%						
City's proportionate share of the net pension liability	\$ 770,303	\$ 1,406,590						
City's covered-employee payroll	\$ 911,772	\$ 957,696						
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	84.484%	1.468722852						
Plan fiduciary net position as a percentage of the total pension liability	52.40%	59.00%						

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF RUSSELL, KENTUCKY
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PENSION AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	2018		2017		2016		2015		2014	
	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous	Nonhazardous	Hazardous
Pension:										
Contractually required contribution	\$ 146,758	\$ 198,070	\$ 127,192	\$ 207,916	\$ 118,480	\$ 174,373	\$ 124,810	\$ 168,264	\$ 128,653	\$ 171,247
Contributions in relation to the contractually required contribution	146,758	198,070	127,192	207,916	118,480	174,373	124,810	168,264	128,653	171,247
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,013,522	\$ 892,207	\$ 911,772	\$ 957,696	\$ 953,942	\$ 860,678	\$ 978,903	\$ 811,693	\$ 936,340	\$ 786,620
City's contributions as a percentage of its covered-employee payroll	14.48%	22.20%	13.95%	21.71%	12.42%	20.26%	12.75%	20.73%	13.74%	21.77%
OPEB:										
Contractually required contribution	\$ 47,636	\$ 83,421	\$ 44,127	\$ 87,332						
Contributions in relation to the contractually required contribution	47,636	83,421	44,127	87,332						
Contribution deficiency (excess)	-	-	-	-						
City's covered-employee payroll	\$ 1,013,522	\$ 892,207	\$ 911,772	\$ 957,696						
City's contributions as a percentage of its covered-employee payroll	4.70%	9.35%	4.73%	9.35%						

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

CITY OF RUSSELL, KENTUCKY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of Retirement, Withdrawal, and Disability were updated to more accurately reflect experience.

There were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

CERS - OPEB

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%
- Decreased the assumed rate of return to 6.25%
- Decreased the payroll growth assumption to 2.00%.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

CERS - PENSION

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2017 and 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

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	7.5%, net of pension plan investment expense, including inflation

CERS - OPEB

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre – 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post – 65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS pension or OPEB.



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

The Honorable Mayor and
Members of City Council
City of Russell
Russell, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Russell, Kentucky (the "City") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Kelley Ballenay Smith Goolsby, PSC

Ashland, Kentucky
March 8, 2019