

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Russell Springs, Kentucky's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the City of Russell Springs, Kentucky, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of the City of Russell Springs, Kentucky'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during out 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.

*Baldwin CPAs, PLLC*

Baldwin CPAs, PLLC  
January 28, 2013

City of Russell Springs, Kentucky  
Management's Discussion and Analysis (MD&A)  
June 30, 2012

As management of the City of Russell Springs, we offer readers of the City of Russell Springs' financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

### FINANCIAL HIGHLIGHTS

- Retirement contribution rates increased for hazardous duty to 35.76% and for non-hazardous duty to 18.96%.
- The sewer lift station modification project #7010 was completed in November of 2011.
- The City now hosts a Karaoke night on Tuesdays at Friends Park along with offering food and drinks for purchase. These activities are expected to bring additional revenue to the City.
- Property tax rate for 2011 was .167 per \$100 of assessed property value.

### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the City of Russell Springs that are principally supported by various taxes, licenses and permits. The governmental activities of the City include fire, safety, highways, streets, sanitation, parks and miscellaneous services. Property taxes, licenses and permits also support fixed assets and related debt. The government-wide financial statements can be found on pages 7-8 of this report.

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

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activities of the City are included in the governmental funds. The basic fund financial statements can be found on pages 9-16 of this report.

**NOTES TO THE FINANCIAL STATEMENTS** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-29 of this report.

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

**THE CITY AS A WHOLE**

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,403	\$ 1,265	\$ 1,130	\$ 1,100	\$ 2,533	\$ 2,365
Capital assets	1,110	1,090	10,601	10,836	11,711	11,926
Total assets	2,513	2,355	11,731	11,936	14,244	14,291
Long-term debt outstanding	29	22	2,411	2,726	2,440	2,748
Other liabilities	76	76	589	409	665	485
Total liabilities	105	98	3,000	3,135	3,105	3,233
Net assets:						
Invested in capital assets						
net of debt	1,074	1,068	7,035	7,108	8,109	8,176
Restricted	-	-	461	444	461	444
Unrestricted	1,334	1,189	1,235	1,249	2,569	2,438
Total net assets	\$ 2,408	\$ 2,257	\$ 8,731	\$ 8,801	\$ 11,139	\$ 11,058

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program revenues:						
Charges for service	\$ -	\$ -	\$ 2,204	\$ 2,140	\$ 2,204	\$ 2,140
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	7	490	7	490
General revenues:						
Taxes	1,108	1,053	-	-	1,108	1,053
Licenses and permits	711	673	-	-	711	673
Fines and forfeits	5	7	-	-	5	7
Intergovernmental programs	169	155	-	-	169	155
Interest revenue	-	-	2	2	2	2
Other revenues	75	77	48	44	123	121
Gain on sale of fixed assets	75	-	-	-	75	-
Total revenues	2,143	1,965	2,261	2,676	4,404	4,641
<b>Program expenses:</b>						
General government	458	452	-	-	458	452
Police	681	664	-	-	681	664
Fire	68	74	-	-	68	74
Highways and streets	317	273	-	-	317	273
Parks	344	277	-	-	344	277
Interest on long-term debt	1	1	-	-	1	1
Unallocated depreciation	93	103	-	-	93	103
Water and sewer	-	-	2,325	2,278	2,325	2,278
Capital outlay	-	73	-	-	-	73
Senior citizens	-	-	-	-	-	-
Total expenses	1,962	1,917	37	37	37	37
Excess (deficiency) before transfers	181	48	(101)	361	80	409
Transfers	(31)	(25)	31	32	-	7
Increase (decrease) in net assets	\$ 150	\$ 23	\$ (70)	\$ 393	\$ 80	\$ 416

The general government received two grants from the Commonwealth of Kentucky for the Click It or Ticket campaign in the amounts of \$2,000 and \$1,400. An additional grant was received from the state in the amount of \$2,375 as a highway safety grant. Utility revenue has increased for the year as a result of an increased customer base. Department personnel received a 1.5% raise during the year.

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### CAPITAL ASSETS

The general government purchased two buildings on Main Street for \$21,000. Additional renovations in the approximate amount of \$76,000 were made, which upon completion, the buildings were rented out for business use. The rent revenue is reflected in the increase in "Other Revenues". Additionally within the general fund's street department, various roads were resurfaced during the year. Within the Utility Department, a 2011 Ford Ranger was purchased, along with the completion of the sewer lift station modification project and the replacement of two water lines. Normal annual depreciation was expensed in the Government-wide financial statements.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Autos & Trucks	\$ 609	\$ 600	\$ 215	\$ 192	\$ 824	\$ 792
Buildings	1,341	1,320	1,106	1,106	2,447	2,426
Fixtures and Equipment	222	215	477	477	699	692
Building Improvements	149	73	-	-	149	73
Land and Improvements	80	80	287	196	367	276
Water and Sewer Systems	-	-	15,259	14,964	15,259	14,964
Construction in Progress	-	-	-	191	-	191
Totals	<u>\$ 2,401</u>	<u>\$ 2,288</u>	<u>\$ 17,344</u>	<u>\$ 17,126</u>	<u>\$ 19,745</u>	<u>\$ 19,414</u>

### DEBT

The City of Russell Springs currently makes payments in the amount of \$2,500 per month to South Kentucky RECC for the Senior Citizens Building. Bond payments are currently made in June and December of each year for the automatic meters. Rural Development and Economic Development require interest payments by April 1 and interest and principal payments by October 1 of each year for outstanding bonds.

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Notes Payable	\$ 36	\$ 22	\$ 106	\$ 137	\$ 142	\$ 159
Leases Payable	-	-	160	210	160	210
Revenue Bonds	-	-	2,305	2,379	2,305	2,379
Totals	<u>\$ 36</u>	<u>\$ 22</u>	<u>\$ 2,571</u>	<u>\$ 2,726</u>	<u>\$ 2,607</u>	<u>\$ 2,748</u>

## **COMMENTS ON BUDGET COMPARISONS**

- Franchise fees revenue remained consistent from the prior year, while property taxes decreased due to a decrease on tax rates.
- Water and Sewer Revenue increased due to additional customers from the Alligator Sewer Project.
- Salary increases in General Government and Water and Sewer were 1.5%.
- Health Insurance increased approximately 1%.

## **THE CITY'S FUNDS**

The Water and Sewer department continually strives to reduce the number of customers who are delinquent on payments. Commercial automatic meters are still being installed as needed with continued accuracy in meter readings and water leaks. The new Community Center is being used often with great support from the Community.

Contacting the City of Russell Springs

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

City of Russell Springs, Kentucky  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds  
For the Year Ended June 30, 2012

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
<b>Revenue</b>				
Taxes	\$ 1,108,166	\$ -	\$ -	\$ 1,108,166
Licenses and permits	711,001	-	-	711,001
Fines and forfeits	5,069	-	-	5,069
Intergovernmental programs	108,257	52,820	-	161,077
Miscellaneous income	75,270	-	-	75,270
<b>Total Revenue</b>	<u>2,007,763</u>	<u>52,820</u>	<u>-</u>	<u>2,060,583</u>
<b>Expenditures</b>				
General government	435,715	-	-	435,715
Police	675,220	-	3,630	678,850
Fire	74,616	-	-	74,616
Highways and streets	218,253	68,622	-	286,875
Culture and recreation	344,070	-	-	344,070
Debt service	-	-	-	-
Capital outlay	160,719	-	-	160,719
<b>Total Expenditures</b>	<u>1,908,593</u>	<u>68,622</u>	<u>3,630</u>	<u>1,980,845</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>99,170</u>	<u>(15,802)</u>	<u>(3,630)</u>	<u>79,738</u>
<b>Other Financing Uses</b>				
Proceeds from sale of assets	75,020	-	-	75,020
Proceeds from long-term debt	21,000	-	-	21,000
Operating transfers out	(31,200)	-	-	(31,200)
<b>Total Other Financing Uses</b>	<u>64,820</u>	<u>-</u>	<u>-</u>	<u>64,820</u>
<b>Net Change in Fund Balance</b>	163,990	(15,802)	(3,630)	144,558
<b>Fund Balances July 1, 2011</b>	<u>1,132,031</u>	<u>42,909</u>	<u>14,130</u>	<u>1,189,070</u>
<b>Fund Balances June 30, 2012</b>	<u>\$ 1,296,021</u>	<u>\$ 27,107</u>	<u>\$ 10,500</u>	<u>\$ 1,333,628</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky  
Statement of Cash Flows -  
Proprietary Funds  
For the Year Ended June 30, 2012

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Cash Flows From Operating Activities			
Cash receipts from customers	\$ 2,178,329	\$ 15,600	\$ 2,193,929
Cash payments to suppliers for goods or services	(1,253,205)	-	(1,253,205)
Cash payments to employees for services	(512,437)	-	(512,437)
Net Cash Provided by Operating Activities	<u>412,687</u>	<u>15,600</u>	<u>428,287</u>
Cash Flows From Capital Financing Activities			
Cash received from capital grants	7,400	-	7,400
Other cash receipts	48,432	31,200	79,632
Cash paid for interest	(112,324)	-	(112,324)
Payments of principal on long-term debt	(142,304)	(31,200)	(173,504)
Net Cash Used by Capital Financing Activities	<u>(198,796)</u>	<u>-</u>	<u>(198,796)</u>
Cash Flows From Investing Activities			
Purchase of capital assets	(199,719)	-	(199,719)
Receipt of interest income	2,004	-	2,004
Net Cash Used by Investing Activities	<u>(197,715)</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	16,176	15,600	31,776
Cash and Cash Equivalents July 1, 2011	<u>650,662</u>	<u>71,010</u>	<u>721,672</u>
Cash and Cash Equivalents June 30, 2012	<u>\$ 666,838</u>	<u>\$ 86,610</u>	<u>\$ 753,448</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities			
Operating Loss	\$ (25,632)	\$ (21,276)	\$ (46,908)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	414,368	36,876	451,244
Amortization	1,019	-	1,019
(Increase) Decrease in:			
Accounts receivable	(9,227)	-	(9,227)
Inventory	10,679	-	10,679
Increase (Decrease) in:			
Accounts payable	17,130	-	17,130
Customer deposits payable	8,238	-	8,238
Accrued expenses	(3,888)	-	(3,888)
Cash Provided by Operating Activities	<u>\$ 412,687</u>	<u>\$ 15,600</u>	<u>\$ 428,287</u>
Cash Reconciliation:			
Cash and cash equivalents	\$ 206,009	\$ 86,610	\$ 292,619
Restricted cash	460,829	-	460,829
Cash and Cash Equivalents June 30, 2012	<u>\$ 666,838</u>	<u>\$ 86,610</u>	<u>\$ 753,448</u>

See accompanying notes to financial statements.