



Independent Auditors' Report

And Financial Statements

For The Year Ended

June 30, 2018

City of Russell Springs, Kentucky
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Russell Springs, Kentucky, as of and for the year ended June 30, 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.

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, pension schedules on pages 41 through 42 and OPEB schedules on pages 43 through 44, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Water and Sewer Services on page 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018 on our consideration of the City of Russell Springs, Kentucky's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Russell Springs, Kentucky's internal control over financial reporting and compliance.

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC

November 14, 2018

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The City collected approximately \$155,000 in alcohol regulatory fees.
- Retirement rates for fiscal year FY 17-18 were 19.18% for non-hazardous and 31.55% for hazardous, a slight increase from the previous fiscal year.
- The City made several capital purchases including vehicles, new park stage, and police and fire equipment. The City also sold the land on Cade Road in FY 17-18. Water and Sewer made several capital purchases including new water meters, sewer pumps and an upgrade to Robertson Rd Manhole Station.
- Property tax rate for 2017 remained at .170 per \$100 of assessed property value.
- Cash available for use to pay the City's obligations as of June 30, 2018 is approximately \$1.4 million which was a decrease compared to the prior year of \$1.6 million.
- The City's total General Fund revenues were over budget by approximately \$750,000 and expenses were over budget by approximately \$715,000.
- The City's proportionate share of the CERS net pension liability increased approximately \$760,000 from the previous fiscal year, from approximately \$2,700,000 to \$3,460,000.
- During FY18 the City took responsibility of the Russell Springs City Cemetery, with it came a bank account with approximately \$19,000.
- The City implemented a new required reporting standard from the Governmental Accounting Standards Board (GASB) that resulted in a significant change in financial reporting for FY 17-18. GASB No. 75 – Accounting and Financial Reporting for Other Post-Employment Benefits (OPEB) – required the City, for the first time, to record its proportionate share of the County Employees' Retirement System's (CERS) net OPEB liability. The City has recorded a net OPEB liability of approximately \$1.2 million as well as related deferred outflows and inflows of resources as a result of the new standard.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements are designed to provide readers with a broad overview of the City of Russell Springs' finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the City of Russell Springs' assets and deferred outflows and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Russell Springs is improving or deteriorating. The statement of activities presents information showing how the City of Russell Springs' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

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 8-9 of this report.

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

NOTES TO THE FINANCIAL STATEMENTS - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-40 of this report. The City of Russell Springs' financial position is the product of several financial transactions including the net results of the activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, the depreciation of capital assets and changes in the net pension liability.

THE CITY AS A WHOLE

Table 1
Net Position (in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,010	\$ 2,072	\$ 1,241	\$ 1,164	\$ 3,251	\$ 3,236
Capital assets	1,390	1,657	9,410	9,462	10,800	11,119
Total assets	3,400	3,729	10,651	10,626	14,051	14,355
Deferred outflows of resources	1,379	572	401	158	1,780	730
Current liabilities	108	190	651	545	759	735
Non-current liabilities	3,620	2,079	3,455	3,141	7,075	5,220
Total liabilities	3,728	2,269	4,106	3,686	7,834	5,955
Deferred inflows of resources	242	10	101	8	343	18
Net position:						
Invested in capital assets net of debt	1,258	1,460	7,012	6,942	8,270	8,402
Restricted	-	-	391	509	391	509
Unrestricted	(449)	563	(558)	(361)	(1,007)	202
Total net position	\$ 809	\$ 2,023	\$ 6,845	\$ 7,090	\$ 7,654	\$ 9,113

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

Russell Springs Volunteer Fire Department received their annual payment of \$10,000 from the Russell County Fiscal Court. Chalybeate Park received an updated look with a new stage.

Table 2
Changes in Net Position (in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for service	\$ 26	\$ 21	\$ 3,263	\$ 2,965	\$ 3,289	\$ 2,986
Operating grants and contributions	168	-	-	-	168	-
Capital grants and contributions	42	-	-	-	42	-
General revenues:						
Taxes	1,362	1,381	-	-	1,362	1,381
Licenses and permits	1,026	987	-	-	1,026	987
Fines and forfeits	4	3	-	-	4	3
Intergovernmental programs	42	142	152	-	194	142
Interest revenue	-	-	-	1	-	1
Other revenues	84	48	79	74	163	122
Loss on sale of fixed asset	(36)	-	-	-	(36)	-
Total revenues	2,718	2,582	3,494	3,040	6,212	5,622
Program expenses:						
General government	959	736	-	-	959	736
Police	1,383	1,120	-	-	1,383	1,120
Fire	124	82	-	-	124	82
Highways and streets	446	443	-	-	446	443
Parks	233	242	-	-	233	242
Cemetery	2	-	-	-	2	-
Interest on long-term debt	5	7	84	94	89	101
Unallocated depreciation	151	141	-	-	151	141
Water and sewer	-	-	3,509	3,186	3,509	3,186
Capital outlay	-	-	-	-	-	-
Senior citizens	-	-	45	38	45	38
Total expenses	3,303	2,771	3,638	3,318	6,941	6,089
Excess (deficiency) before transfers	(585)	(189)	(144)	(278)	(729)	(467)
Transfers	(70)	71	70	(71)	-	-
Increase (decrease) in net position	\$ (655)	\$ (118)	\$ (74)	\$ (349)	\$ (729)	\$ (467)

All city employees received pay increases. Occupational payroll taxes remained consistent and franchise fees increased by 7%. Police expenditures increased 24% as a result of increase in salaries and wages and employee benefits from the increase in the number of positions. Highway and streets remained fairly consistent with prior year. The general government expenses have increased by approximately \$223,000.

Water and Sewer revenue increased 15%. Expenses increased by 10% primarily as increase in water and sewer charges from Jamestown Utilities.

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

CAPITAL ASSETS

The City purchased two new vans for the senior citizen building. The water and sewer fund placed into service a new manhole station on Robertson Rd. Normal annual depreciation was expensed in the government-wide financial statements. The property on Cade Rd was sold to a developer for an approximate loss of \$35,000.

Table 3
Capital Assets (in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Autos & Trucks	\$ 1,061	\$ 988	\$ 298	\$ 298	\$ 1,359	\$ 1,286
Buildings	1,373	1,341	1,106	1,106	2,479	2,447
Fixtures and Equipment	366	331	730	726	1,096	1,057
Land and Improvements	480	735	286	286	766	1,021
Construction in progress	35	35	-	-	35	35
Water and Sewer Systems	-	-	16,485	16,067	16,485	16,067
Totals	\$ 3,315	\$ 3,430	\$ 18,905	\$ 18,483	\$ 22,220	\$ 21,913

DEBT

Rural Development requires interest payments by April 1 and interest and principal payments by October 1, of each year. KIA loan require payments in June and December. The fire truck payment is due each October.

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

	Governmental Activities		Business-type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Notes Payable	\$ 133	\$ 197	\$ 564	\$ 601	\$ 697	\$ 798
Leases Payable	-	-	-	-	-	-
Revenue Bonds	-	-	1,835	1,919	1,835	1,919
Totals	\$ 133	\$ 197	\$ 2,399	\$ 2,520	\$ 2,532	\$ 2,717

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2018

COMMENTS ON BUDGET COMPARISONS

- Raises were given to all employees
- Water and Sewer Revenue along with Penalties and Taps increased from FY 17-18

THE CITY'S FUNDS

More utility customers continue to use credit cards to pay their utility bill. The Community Center remains to be a wonderful rental asset for the City.

Contacting the City of Russell Springs

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

City of Russell Springs, Kentucky
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 1,486,066	\$ 334,993	\$ 1,821,059
Investments	4,014	-	4,014
Receivables:			
Customers	-	452,024	452,024
Taxes	395,805	-	395,805
Unbilled	-	163,089	163,089
Allowance	-	(47,000)	(47,000)
Other	935	-	935
Inventory	-	49,773	49,773
Internal balances	103,503	(103,503)	-
Restricted assets:			
Cash	19,494	391,615	411,109
Total Current Assets	<u>2,009,817</u>	<u>1,240,991</u>	<u>3,250,808</u>
Noncurrent Assets			
Capital assets	3,314,932	18,905,306	22,220,238
Less: accumulated depreciation	(1,924,744)	(9,494,855)	(11,419,599)
Net capital assets	<u>1,390,188</u>	<u>9,410,451</u>	<u>10,800,639</u>
Total Assets	<u>3,400,005</u>	<u>10,651,442</u>	<u>14,051,447</u>
 Deferred Outflows of Resources	 <u>1,378,637</u>	 <u>400,671</u>	 <u>1,779,308</u>
Liabilities, Deferred Inflows and Net Position			
Liabilities			
Current Liabilities			
Revenue bonds payable	-	89,900	89,900
Notes payable	29,165	37,267	66,432
Accounts payable	-	256,115	256,115
Accrued payroll and payroll taxes	51,340	6,273	57,613
Customer deposits payable	-	229,729	229,729
Accrued vacation	27,604	10,177	37,781
Accrued interest payable	-	21,791	21,791
Total Current Liabilities	<u>108,109</u>	<u>651,252</u>	<u>759,361</u>
Non-current Liabilities			
Revenue bonds payable	-	1,744,599	1,744,599
Notes payable	103,509	526,830	630,339
Net OPEB liability	957,140	277,879	1,235,019
Net pension liability	2,558,271	905,313	3,463,584
Total non-current liabilities	<u>3,618,920</u>	<u>3,454,621</u>	<u>7,073,541</u>
Total Liabilities	<u>3,727,029</u>	<u>4,105,873</u>	<u>7,832,902</u>
 Deferred Inflows of Resources	 <u>242,106</u>	 <u>101,223</u>	 <u>343,329</u>
Net Position			
Invested in capital assets, net of related debt	1,257,514	7,011,855	8,269,369
Restricted for:			
Debt service	-	209,776	209,776
Other purposes	-	181,839	181,839
Unrestricted	(448,007)	(558,453)	(1,006,460)
Total Net Position	<u>\$ 809,507</u>	<u>\$ 6,845,017</u>	<u>\$ 7,654,524</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Activities
For the Year Ended June 30, 2018

Function/Programs	Expenses	Charges For Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
General government	\$ 959,196	\$ 9,990	\$ -	\$ 42,188	\$ (907,018)	\$ -	\$ (907,018)
Police	1,382,292	-	50,933	-	(1,331,359)	-	(1,331,359)
Fire	123,747	-	-	-	(123,747)	-	(123,747)
Highways and streets	445,796	-	95,328	-	(350,468)	-	(350,468)
Culture and Recreation	232,677	15,701	-	-	(216,976)	-	(216,976)
Cemetery	2,574	-	22,069	-	19,495	-	19,495
Interest on long-term debt	4,856	-	-	-	(4,856)	-	(4,856)
Unallocated depreciation	151,188	-	-	-	(151,188)	-	(151,188)
Total Governmental Activities	3,302,326	25,691	168,330	42,188	(3,086,117)	-	(3,086,117)
Business-Type Activities							
Water and Sewer	3,592,654	3,094,986	-	-	-	(497,668)	(497,668)
Senior Citizens	45,107	15,810	-	-	-	(29,297)	(29,297)
Total Business-Type Activities	3,637,761	3,110,796	-	-	-	(526,965)	(526,965)
Total City	\$ 6,940,087	\$ 3,136,487	\$ 168,330	\$ 42,188	(3,086,117)	(526,965)	(3,593,082)
General Revenues:							
Taxes					1,361,886	-	1,361,886
Licenses and permits					1,026,085	-	1,026,085
Fines					3,703	-	3,703
Intergovernmental programs					42,471	152,004	194,475
Loss from sale of asset					(35,639)	-	(35,639)
Other revenues					83,974	79,203	163,177
Total General Revenues					2,482,480	383,211	2,865,691
Transfers					(70,000)	70,000	-
Change in Net Position					(653,637)	(73,754)	(727,391)
Net Position - Beginning					2,022,569	7,089,799	9,112,368
Prior Period Adjustment - See Note 20					(559,425)	(171,028)	(730,453)
Net Position - Beginning As Restated					1,463,144	6,918,771	8,381,915
Net Position - Ending					\$ 809,507	\$ 6,845,017	\$ 7,654,524

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Balance Sheet - Governmental Funds
June 30, 2018

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,406,920	62,478	16,668	\$ 1,486,066
Restricted cash	19,494	-	-	19,494
Investments	4,014	-	-	4,014
Receivables				
Taxes receivable	395,805	-	-	395,805
Other receivables	935	-	-	935
Due from other funds	103,503	-	-	103,503
	<u>1,930,671</u>	<u>62,478</u>	<u>16,668</u>	<u>2,009,817</u>
Total Assets	\$ 1,930,671	\$ 62,478	\$ 16,668	\$ 2,009,817
Liabilities and Fund Balances				
Liabilities				
Accrued vacation	\$ 27,604	\$ -	\$ -	\$ 27,604
Payroll taxes payable	22,842	-	-	22,842
Accrued payroll	28,498	-	-	28,498
Total Liabilities	78,944	-	-	78,944
Fund Balances				
Restricted	-	62,478	16,668	79,146
Unassigned	1,851,727	-	-	1,851,727
Total Fund Balances	1,851,727	62,478	16,668	1,930,873
Total Liabilities and Fund Balances	\$ 1,930,671	\$ 62,478	\$ 16,668	\$ 2,009,817

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2018

Total Fund Balances Per Fund Financial Statements	\$ 1,930,873
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	1,390,188
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Deferred outflows and inflows used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Deferred outflows related to pension and OPEB	1,378,637

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position:

Notes payable	(132,674)	
Deferred inflows related to pension and OPEB	(242,106)	
Net OPEB liability	(957,140)	
Net pension liability	<u>(2,558,271)</u>	<u>(3,890,191)</u>

Net Position of Governmental Activities	<u>\$ 809,507</u>
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City of Russell Springs, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
June 30, 2018

	General Fund	Municipal Road Aid Fund	Special Revenue Fund	Total Governmental Funds
Revenue				
Taxes	\$ 1,361,886	\$ -	\$ -	\$ 1,361,886
Licenses and permits	1,026,085	-	-	1,026,085
Fines and forfeits	3,703	-	-	3,703
Intergovernmental programs	150,589	95,328	7,072	252,989
Miscellaneous income	109,666	-	-	109,666
Total Revenue	<u>2,651,929</u>	<u>95,328</u>	<u>7,072</u>	<u>2,754,329</u>
Expenditures				
General government	926,019	-	-	926,019
Police	1,174,636	-	1,327	1,175,963
Fire	123,747	-	-	123,747
Highways and streets	333,984	97,371	-	431,355
Culture and recreation	240,841	-	-	240,841
Debt service	38,612	-	-	38,612
Cemetery	2,574	-	-	2,574
Total Expenditures	<u>2,840,413</u>	<u>97,371</u>	<u>1,327</u>	<u>2,939,111</u>
Excess of Revenues Over (Under) expenditures	<u>(188,484)</u>	<u>(2,043)</u>	<u>5,745</u>	<u>(184,782)</u>
Other Financing Sources				
Transfer In	(70,000)	-	-	(70,000)
Proceeds from sale of asset	224,361	-	-	224,361
Total Other Financing Sources	<u>154,361</u>	<u>-</u>	<u>-</u>	<u>154,361</u>
Net Change in Fund Balance	(34,123)	(2,043)	5,745	(30,421)
Fund Balances July 1, 2017	<u>1,885,850</u>	<u>64,521</u>	<u>10,923</u>	<u>1,961,294</u>
Fund Balances June 30, 2018	<u>\$ 1,851,727</u>	<u>\$ 62,478</u>	<u>\$ 16,668</u>	<u>\$ 1,930,873</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Reconciliaton 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 Total Fund Balances Per Fund Financial Statements \$ (30,421)

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

Governmental funds report capital outlays as expenditures because they use
current financial resources. However in the statement of activities
the cost of those assets is allocated over their estimated useful lives
and reported as depreciation expense.

Capital asset expenditures capitalized	144,602	
Depreciation expense	(151,189)	
Cost of property sold	<u>(260,000)</u>	(266,587)

Some expenses reported in the statement of activities do not require
the use of current financial resources and therefore are not reported as
expenditures in the governmental funds. This is the amount related to:

Net OPEB liability	(74,628)	
Net pension liability	<u>(315,757)</u>	(390,385)

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

33,756

Change in Net Position of Governmental Activities \$ (653,637)

City of Russell Springs, Kentucky
Statement of Revenues, Expenditures and Changes in
Fund Balances - Budget and Actual - General Fund
June 30, 2018

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue				
Taxes	\$ 1,097,000	\$ 1,097,000	\$ 1,361,886	\$ 264,886
Licenses and permits	734,400	734,400	1,026,085	291,685
Fines and forfeits	2,100	2,100	3,703	1,603
Intergovernmental programs	36,150	36,150	150,589	114,439
Miscellaneous income	32,800	32,800	109,666	76,866
Total Revenue	<u>1,902,450</u>	<u>1,902,450</u>	<u>2,651,929</u>	<u>749,479</u>
Expenditures				
General government	463,311	463,311	926,019	(462,708)
Police	1,017,369	1,017,369	1,174,636	(157,267)
Fire	102,034	102,034	123,747	(21,713)
Highways and streets	311,657	311,657	333,984	(22,327)
Parks	225,572	225,572	240,841	(15,269)
Cemetery	-	-	2,574	(2,574)
Debt service	-	-	38,612	(38,612)
Total Expenditures	<u>2,119,943</u>	<u>2,119,943</u>	<u>2,840,413</u>	<u>(720,470)</u>
Excess of Revenues Over (Under) expenditures	<u>(217,493)</u>	<u>(217,493)</u>	<u>(188,484)</u>	<u>29,009</u>
Other Financing Sources				
Transfer in	-	-	(70,000)	(70,000)
Proceeds from sale of asset	-	-	224,361	224,361
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>154,361</u>	<u>224,361</u>
Net Change in Fund Balance	(217,493)	(217,493)	(34,123)	253,370
Fund Balance July 1, 2017	<u>1,885,850</u>	<u>1,885,850</u>	<u>1,885,850</u>	<u>-</u>
Fund Balance June 30, 2018	<u>\$ 1,668,357</u>	<u>\$ 1,668,357</u>	<u>\$ 1,851,727</u>	<u>\$ 253,370</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Net Position - Proprietary Funds
June 30, 2018

	Water and Sewer <u>Fund</u>	Senior Citizens <u>Fund</u>	Total Proprietary <u>Funds</u>
Assets and Deferred Outflows			
Current Assets			
Cash and cash equivalents	\$ 250,189	\$ 84,804	\$ 334,993
Receivables:			
Customers	452,024	-	452,024
Unbilled	163,089	-	163,089
Allowance	(47,000)	-	(47,000)
Inventory	49,773	-	49,773
Restricted Assets:			
Cash	391,615	-	391,615
Total Current Assets	<u>1,259,690</u>	<u>84,804</u>	<u>1,344,494</u>
Noncurrent Assets			
Capital assets, net of depreciation	<u>8,524,918</u>	<u>885,533</u>	<u>9,410,451</u>
Total Noncurrent Assets	<u>8,524,918</u>	<u>885,533</u>	<u>9,410,451</u>
Total Assets	<u>9,784,608</u>	<u>970,337</u>	<u>10,754,945</u>
Deferred Outflows of Resources	<u>400,671</u>	<u>-</u>	<u>400,671</u>
Liabilities and Net Pension			
Liabilities			
Current Liabilities			
Revenue bonds payable	89,900	-	89,900
Notes payable	37,267	-	37,267
Accounts payable	256,115	-	256,115
Accrued payroll and payroll taxes	6,273	-	6,273
Customer deposits payable	229,729	-	229,729
Accrued vacation	10,177	-	10,177
Due to other funds	87,912	15,591	103,503
Accrued interest payable	21,791	-	21,791
Total Current Liabilities	<u>739,164</u>	<u>15,591</u>	<u>754,755</u>
Noncurrent Liabilities			
Revenue bonds payable	1,744,599	-	1,744,599
Notes payable	526,830	-	526,830
Net OPEB liability	277,879	-	277,879
Net pension liability	905,313	-	905,313
Total Noncurrent Liabilities	<u>3,454,621</u>	<u>-</u>	<u>3,454,621</u>
Total Liabilities	<u>4,193,785</u>	<u>15,591</u>	<u>4,209,376</u>
Deferred Inflows of Resources	<u>101,223</u>	<u>-</u>	<u>101,223</u>
Net Position			
Invested in capital assets, net of related debt	6,126,322	885,533	7,011,855
Restricted for:			
Debt service	209,776	-	209,776
Other purposes	181,839	-	181,839
Unrestricted	(627,666)	69,213	(558,453)
Total Net Position	<u>\$ 5,890,271</u>	<u>\$ 954,746</u>	<u>\$ 6,845,017</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Operating Revenues			
Charges for services	\$ 3,246,990	\$ 15,810	\$ 3,262,800
Total Operating Revenues	<u>3,246,990</u>	<u>15,810</u>	<u>3,262,800</u>
Operating Expenses			
Salaries	348,957	-	348,957
Payroll taxes	26,855	-	26,855
Motor fuels	51,060	-	51,060
Depreciation and amortization	435,604	37,897	473,501
Maintenance	108,175	-	108,175
Utilities	98,559	-	98,559
Chemicals	3,458	-	3,458
Employee benefits	292,515	-	292,515
Insurance	65,251	-	65,251
Supplies	163,378	-	163,378
Office supplies	8,283	-	8,283
Professional fees	42,441	7,210	49,651
Advertising and printing	1,143	-	1,143
Lab analysis	6,326	-	6,326
Water purchases	921,654	-	921,654
Sanitation	791,046	-	791,046
Dues and subscriptions	438	-	438
Uniforms	5,869	-	5,869
Miscellaneous	16,890	-	16,890
Sales tax	38,660	-	38,660
Utility tax	56,074	-	56,074
Communications and postage	26,298	-	26,298
Total Operating Expenses	<u>3,508,934</u>	<u>45,107</u>	<u>3,554,041</u>
Operating Income (Loss)	<u>(261,944)</u>	<u>(29,297)</u>	<u>(291,241)</u>
Nonoperating Revenues (Expenses)			
Transfer In	-	70,000	70,000
Intergovernmental	152,004	-	152,004
Interest expense	(83,720)	-	(83,720)
Miscellaneous revenue	79,203	-	79,203
Total Nonoperating Revenues (Expenses)	<u>147,487</u>	<u>70,000</u>	<u>217,487</u>
Change in Net Position	(114,457)	40,703	(73,754)
Net Position, July 1, 2017, as originally stated	6,175,756	914,043	7,089,799
Prior Period Adjustment (See Note 20)	<u>(171,028)</u>	<u>-</u>	<u>(171,028)</u>
Net Position, July 1, 2017, as restated	<u>6,004,728</u>	<u>914,043</u>	<u>6,918,771</u>
Net Position, June 30, 2018	<u>\$ 5,890,271</u>	<u>\$ 954,746</u>	<u>\$ 6,845,017</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Statement of Cash Flows -
Proprietary Funds
For the Year Ended June 30, 2018

	Water & Sewer Fund	Senior Citizens Fund	Total Proprietary Funds
Cash Flows From Operating Activities			
Cash receipts from customers	\$ 3,077,726	\$ 15,810	\$ 3,093,536
Cash payments to suppliers for goods or services	(2,300,701)	(7,210)	(2,307,911)
Cash payments to employees for services	(534,482)	-	(534,482)
Net Cash Provided by Operating Activities	<u>242,543</u>	<u>8,600</u>	<u>251,143</u>
Cash Flows From Capital Financing Activities			
Other cash receipts	79,203	-	79,203
Cash receipts from grants	152,004	-	152,004
Cash paid for interest	(83,720)	-	(83,720)
Interfund activity	-	70,000	70,000
Payments of principal on long-term debt	(127,167)	-	(127,167)
Net Cash Provided by Capital Financing Activities	<u>20,320</u>	<u>70,000</u>	<u>90,320</u>
Cash Flows From Investing Activities			
Purchase of capital assets	(422,041)	(4,658)	(426,699)
Net Cash Used by Investing Activities	<u>(422,041)</u>	<u>(4,658)</u>	<u>(426,699)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(159,178)	73,942	(85,236)
Cash and Cash Equivalents July 1, 2017	<u>800,982</u>	<u>10,862</u>	<u>811,844</u>
Cash and Cash Equivalents June 30, 2018	<u>\$ 641,804</u>	<u>\$ 84,804</u>	<u>\$ 726,608</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ (261,944)	\$ (29,297)	\$ (291,241)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	435,604	37,897	473,501
(Increase) Decrease in:			
Accounts receivable	(169,264)	-	(169,264)
Inventory	7,103	-	7,103
Deferred outflows of resources	(242,466)	-	(242,466)
Increase (Decrease) in:			
Accounts payable	94,183	-	94,183
Customer deposits payable	3,960	-	3,960
Accrued payroll and payroll taxes	2,928	-	2,928
Accrued vacation	(88)	-	(88)
Accrued interest	(944)	-	(944)
Net pension liability	163,063	-	163,063
Net OPEB liability	106,851	-	106,851
Deferred inflows of resources	103,557	-	103,557
Cash Provided by Operating Activities	<u>\$ 242,543</u>	<u>\$ 8,600</u>	<u>\$ 251,143</u>
Cash Reconciliation:			
Cash and cash equivalents	\$ 250,189	\$ 84,804	\$ 334,993
Restricted cash	391,615	-	391,615
Cash and Cash Equivalents June 30, 2018	<u>\$ 641,804</u>	<u>\$ 84,804</u>	<u>\$ 726,608</u>

See accompanying notes to financial statements.

City of Russell Springs, Kentucky
Notes to Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

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

The City reports the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Budget Basis of Accounting

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

The general fund budget is prepared on a basis consistent with generally accepted accounting principles. For the year ended June 30, 2018, expenditures exceeded appropriations in the General Fund by \$720,470. These expenditures were primarily funded by greater than anticipated revenues.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Investments

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

Inventory

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

Accounts Receivable - Enterprise Fund

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

Allowance for Doubtful Accounts

The City has provided for an allowance for doubtful accounts for the year ended June 30, 2018 based upon the City's estimate of the collectability of accounts receivable.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not capitalized. All reported capital assets and improvements are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are 5-40 years for infrastructure; 25-40 years for buildings; 10-40 years for improvements and 5-20 years for vehicles and equipment.

Deferred Outflows and Inflows of Resources

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Deferred Outflows and Inflows of Resources (Continued)

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

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category which is related to change in proportion and differences between employer contributions and proportionate share of contributions. Refer to the Pension Liability, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension in Note 8, Retirement Plan and the Post-Employment Benefits Other than Pensions (OPEB) in Note 19.

Accrued Liabilities and Long-Term Obligations

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

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

Compensated Absences

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

Pensions

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the City's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CERS' Insurance Fund and additions to/deductions from the Insurance Fund's fiduciary net position have been determined on the same basis as they are reported by the Insurance Fund. For this purpose, the Insurance Fund recognizes benefit payments when due and payable in accordance with the benefit terms; the liability was measured at June 30, 2017.

Interfund Balances

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

Estimates

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

Note 2 – Cash and Investments

The City maintains their cash and investment accounts with local banks. Cash consists of direct deposit accounts and investments consist of a certificate of deposit. At June 30, 2018 the carrying amount of unrestricted cash and investments was \$1,844,935 and the bank balance was \$2,253,963. Additional cash information is presented in Notes 4 and 5.

Note 3 - Restricted Cash

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

Note 4 – Kentucky Revised Statute

As of June 30, 2018, \$2,253,963 of the City's cash balance at the bank was covered by federal depository, depository bond insurance and securities pledged as collateral on behalf of the City. In accordance with Kentucky Revised Statute (KRS) 66.480, the deposits are to be insured by the federal depository insurance or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), it shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS.66.480, the City is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, insured savings and loans, or interest bearing deposits of insured national or state banks.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 5 - Deposits

Custodial Credit Risk-Deposits: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of June 30, 2018, \$1,899,613 of the City's bank balance of \$2,253,963 was exposed to custodial credit risk as described below. \$354,350 of the City's deposits was covered by Federal depository insurance at June 30, 2018.

Uninsured and uncollateralized	\$ -
Uninsured and collateral held by pledging bank	1,899,613
Uninsured and collateral held by pledging bank's trust department not in the City's name	-
Total	<u>\$ 1,899,613</u>

Note 6 – Revenue Bonds Payable

At June 30, 2018, the Water and Sewer Fund had the following bonds payable outstanding:

<u>Description</u>	<u>Interest Rate</u>	<u>Series</u>	<u>Amount</u>
Revenue Bonds	5.00%	1981	69,999
Revenue Bonds	5.00%	1986	114,000
Revenue Bonds	4.50%	1996 A	402,000
Revenue Bonds	4.50%	1996 B	903,000
Revenue Bonds	4.50%	2001	244,500
Revenue Bonds	4.00%	2004	<u>101,000</u>
Total payable at par			1,834,499
Less: current portion payable from restricted assets			<u>89,900</u>
Total long-term portion			<u>\$ 1,744,599</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 6 – Revenue Bonds Payable (Continued)

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

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	89,900	76,567
2020	94,100	72,343
2021	99,899	67,919
2022	78,200	63,919
2023-2027	432,700	259,361
2028-2032	475,600	165,365
2033-2037	451,700	54,520
2038-2042	100,900	8,607
2043-2044	11,500	-
Total	<u>\$ 1,834,499</u>	<u>\$ 768,601</u>

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

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

Water and Sewer Interest Sinking Fund

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

Water and Sewer Maintenance and Operation Fund

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

Water and Sewer System Reserve Fund

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 6 – Bonds Payable (Continued)

Water and Sewer Replacement Fund

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

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

Pledged Revenues

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

The City has pledged future water customer revenues, net of specified operating expenses to repay water system revenue bonds issued at various dates from 1981 through 2004. Total water customer revenues net of specified operating expenses amounted to \$324,840 for the year ended June 30, 2018. Proceeds from the bonds provided financing for various water projects. The bonds are payable solely from water customer net revenues and are payable at various maturity dates from 2017 through 2044. The total principal and interest remaining to be paid on the bonds as of June 30, 2018 is \$2,603,100. Principal and interest paid for the year ended June 30, 2018 was \$168,320.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 7 – Notes Payable

As of June 30, 2018, the City had the following notes payable outstanding:

Description	Interest Rate	Maturity Date	Amount
Pumper Truck Loan	3.000%	March 2024	\$ 118,440
Manhole Project Loan	1.000%	June 2034	542,972
Vehicle Loan	3.000%	July 2017	14,234
Vehicle Loan	3.000%	June 2021	21,125
Total			696,771
Less: current portion			66,432
Total long-term portion			<u>\$ 630,339</u>

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

Year Ended June 30,	Governmental Activities Notes Payable		Business-type Activities Notes Payable	
	Principal	Interest	Principal	Interest
2019	\$ 29,165	\$ 3,530	\$ 37,267	\$ 5,925
2020	15,378	3,082	37,780	5,398
2021	15,840	2,620	38,271	4,876
2022	16,315	2,146	31,350	4,430
2023	16,790	1,672	31,663	3,984
Thereafter	39,186	1,769	387,766	23,825
Total	<u>\$ 132,674</u>	<u>\$ 14,819</u>	<u>\$ 564,097</u>	<u>\$ 48,438</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 8 – Retirement Plan

Plan Description

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

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

For the fiscal year ended June 30, 2018 the City's covered payroll for hazardous and non-hazardous positions was \$1,227,917. Kentucky Revised Statutes provides authority for employee and employer contributions. Employees and the City have contributed all of the required contributions for the fiscal year ending June 30, 2018.

Contribution rates are as follows:

	<u>Employee</u>	<u>Employer</u>
Non-hazardous	5.0%-6.0%	19.18%
Hazardous	8.0%-9.0%	31.55%

The City's contribution for the fiscal year ended June 30, 2018 amounted to \$370,511, of which \$295,068 was contributed by the City and \$75,443 by the City's employees.

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

	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	54,018	7,186	61,204
Inactive memberships	78,940	2,442	81,382
Active plan members	<u>84,401</u>	<u>9,321</u>	<u>93,722</u>
	<u>217,359</u>	<u>18,949</u>	<u>236,308</u>
Number of participating employers			<u>1,138</u>

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

At June 30, 2018, the City reported a liability of \$3,463,583 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities,

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 8 - Retirement Plan (Continued)

actuarially determined. At June 30, 2017, the City's proportion was 0.077 percent for hazardous and .029 percent for non-hazardous.

For the year ended June 30, 2018, the City recognized pension expense of \$643,526. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ 129,700	\$ 10,429
Differences between expected and actual experience	66,121	43,636
Changes of assumptions	665,207	-
Net difference between projected and actual earnings on Plan investments	250,574	214,066
City's contributions subsequent to the measurement date	213,784	-
Total	\$ 1,325,386	\$ 268,131

The \$213,784 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ending June 30,	
2019	\$ 371,608
2020	357,981
2021	137,217
2022	(41,109)

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

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 8 - Retirement Plan (Continued)

Actuarial Methods and Assumptions

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
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%

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.

Long Term Rate of Return: The long term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the System. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long term rate of return assumption including long term historical data, estimates inherent in current market data, and a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 8 - Retirement Plan (Continued)

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

Asset Class	Long-Term	
	Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	<u>6.56%</u>	<u>100.00%</u>

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 local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Discount rate	City's proportionate share of net pension liability
1% decrease	5.25%	\$ 4,362,000
Current discount rate	6.25%	\$ 3,464,000
1% increase	7.25%	\$ 2,717,000

Payables to the pension plan: At June 30, 2018, the City reported a payable including insurance contributions of \$27,063 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 9 – Summary of Fixed Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Autos and trucks	\$ 988,453	\$ 72,696	\$ -	\$ 1,061,149
Buildings	1,341,352	32,146	-	1,373,498
Fixtures and equipment	330,824	34,760	-	365,584
Buildings and land improvements	429,901	5,000	-	434,901
Land	304,800	-	260,000	44,800
Construction in progress	35,000	-	-	35,000
Totals at Historical Cost	<u>3,430,330</u>	<u>144,602</u>	<u>260,000</u>	<u>3,314,932</u>
Less: accumulated depreciation				
Autos and trucks	682,263	76,937	-	759,200
Buildings	686,912	28,533	-	715,445
Fixtures and equipment	242,693	16,515	-	259,208
Buildings and land improvements	161,688	29,203	-	190,891
Total Accumulated Depreciaiton	<u>1,773,556</u>	<u>151,188</u>	<u>-</u>	<u>1,924,744</u>
Governmental Activities Capital Assets - Net	<u>\$ 1,656,774</u>	<u>\$ (6,586)</u>	<u>\$ 260,000</u>	<u>\$ 1,390,188</u>
<u>Business-Type Activities</u>				
Autos and trucks	\$ 298,002	\$ -	\$ -	\$ 298,002
Land and improvements	286,406	-	-	286,406
Buildings	1,106,282	-	-	1,106,282
Fixtures and equipment	725,433	4,658	-	730,091
Water and sewer systems	16,067,130	417,383	-	16,484,513
Totals at Historical Cost	<u>18,483,253</u>	<u>422,041</u>	<u>-</u>	<u>18,905,294</u>
Less: accumulated depreciation				
Autos and trucks	236,679	17,847	-	254,526
Land and improvements	38,446	6,065	-	44,511
Buildings	368,583	36,876	-	405,459
Fixtures and equipment	493,768	39,813	-	533,581
Water and sewer systems	7,883,865	372,901	-	8,256,766
Total Accumulated Depreciation	<u>9,021,341</u>	<u>473,502</u>	<u>-</u>	<u>9,494,843</u>
Business-Type Activities Capital Assets - Net	<u>\$ 9,461,912</u>	<u>\$ (51,461)</u>	<u>\$ -</u>	<u>\$ 9,410,451</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 10 – Property Tax Calendar

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

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

Note 11 – Interfund Receivables and Payables and Transfers

Interfund Receivables and Payables as of June 30, 2018 are as follows:

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

Note 12 – Summary of Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Notes Payable	\$ 166,430	\$ -	\$ 33,756	\$ 132,674	\$ 29,165
Governmental Activities:					
Long-term Debt	<u>\$ 166,430</u>	<u>\$ -</u>	<u>\$ 33,756</u>	<u>\$ 132,674</u>	<u>\$ 29,165</u>
Business-type Activities:					
Revenue Bonds	\$ 1,919,099	\$ -	\$ 84,600	\$ 1,834,499	\$ 89,900
Notes Payable	600,859	-	36,762	564,097	37,267
Business-type Activities:					
Long-term Debt	<u>\$ 2,519,958</u>	<u>\$ -</u>	<u>\$ 121,362</u>	<u>\$ 2,398,596</u>	<u>\$ 127,167</u>

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 13 – Insurance and Risk Management

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

Note 14 – Fund Balance and Net Position

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

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

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

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

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

Unassigned – All amounts not included in other spendable classifications.

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

General Fund

The General Fund has unassigned fund balance of \$1,851,727 as of June 30, 2018.

Other Major Funds

The Municipal Road Aid Fund has restricted funds of \$62,478 that are set aside for City road repairs. The Special Revenue Fund has restricted funds of \$16,668 that are obligated by state statute to be spent only for law enforcement narcotics operations.

Net Position

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 15 – Related Party Transactions

Two of the City Council Members own businesses in which the City uses as vendors. One operates an auto repair facility which did repairs in the amount of \$4,324 on City vehicles during the fiscal year ended June 30, 2018. Another Council Member owns a towing business hauled heavy equipment for the City in the amount of \$4,229.

Note 16 – Contingencies

The City has received financial assistance from federal, state and local governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and the Single Audit Act, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds, however, such disallowed claims, if any, are not expected to have a materially adverse effect on the City's financial position at June 30, 2018.

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

Note 17 – Subsequent Events

Management has evaluated subsequent events through November 14, 2018, the date which the financial statements were available to be issued.

Note 18 – Recently Issued Accounting Standards Update

GASB Statement No. 83—In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018–19 fiscal year. The City has not determined the effect of this pronouncement.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 18 – Recently Issued Accounting Standards (continued)

GASB Statement No. 84—In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019–20 fiscal year. The City has not determined the effect of this pronouncement.

GASB Statement No. 87—In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement 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. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, 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. The Statement is effective for the reporting periods beginning after December 15, 2019, or the 2020-21 fiscal year. The City has not determined the effect of this pronouncement.

Note 19 – Post-Employment Benefits Other than Pensions (OPEB)

At June 30, 2018, the net OPEB liability and the related deferred outflows of resources and deferred inflows of resources are as follows:

Deferred Outflows of Resources	<u>\$ 453,921</u>
Deferred Inflows of Resources	<u>\$ 75,198</u>
Net OPEB Liability:	<u>\$ 1,235,019</u>

Plan Description

Employees of the City are provided hospital and medical insurance through the Kentucky Retirement Systems' Insurance Fund (Insurance Fund), a cost-sharing multiple-employer defined benefit OPEB plan. The KRS was created by state statute under Kentucky Revised Statue Section 61.645. The KRS Board of Trustees is responsible for the proper operation and administration of the KRS. The KRS issues a publicly available financial report that can obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601, or by telephone at (502) 564-4646.

Benefits provided. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. Because of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 19 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Contributions

Contribution requirements of the participating employers are established and may be amended by the KRS Board of Trustees. The City has contractually required contribution rate for the year ended June 30, 2018 was 4.70% of covered payroll. Contributions to the Insurance Fund from the City were \$80,461 for the year ended June 30, 2018. Employees that entered the plan prior to September 1, 2008 are not required to contribute to the Insurance Fund. Employees that entered the plan after September 1, 2008 are required to contribute 1% of their annual creditable compensation which is deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E).

Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2017, was performed by Gabriel Roeder Smith (GRS). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2017 were based on an actuarial valuation date of June 30, 2016. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not perform the actuarial valuation as of June 30, 2016 but did replicate the prior actuary's valuations results on the same assumption, methods, and data, as of that date. The roll-forward is based on the results of GRS' replication.

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2017:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	26 years, Closed
Payroll Growth Rate	4.00%
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 Rate	
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.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females).

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 19 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Discount Rate

The projection of cash flows used to determine the discount rate of 5.83% for CERS Non-hazardous 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 long-term expected rate of return on plan assets is reviewed as part of the regular experience study prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class (See chart below.). These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans, which covers a longer timeframe. The assumptions are intended to be long-term assumptions and are not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Asset Class	Long-Term Expected Rate of Return	Target Allocation
U.S Equity	5.97%	17.50%
International Equity	7.85%	17.50%
Global Bonds	2.63%	4.00%
Global Credit	3.63%	2.00%
High Yield	5.75%	7.00%
Emerging Market		
Debt	5.50%	5.00%
Private Credit	8.75%	10.00%
Real Estate	0.11%	5.00%
Absolute Return	5.63%	10.00%
Real Return	6.13%	10.00%
Private Equity	8.25%	10.00%
Cash	1.88%	2.00%
	6.56%	100.00%

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 19 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (4.83%) or one percentage point higher (6.83%) follows:

	Discount Rate	City's proportionate share of net OPEB liability
1% decrease	4.83%	\$ 1,615,130
Current discount rate	5.83%	\$ 1,235,019
1% increase	6.83%	\$ 921,775

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.5%) or one percentage point higher (8.5%) than current healthcare cost trend rates follows:

	Healthcare Cost Trend Rate	City's proportionate share of net OPEB liability
1% decrease	6.5%	\$ 909,183
Current healthcare rate	7.5%	\$ 1,235,019
1% increase	8.5%	\$ 1,646,858

OPEB Liabilities, OPEB Expense and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability of \$1,235,019 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net OPEB liability and OPEB expense was determined using the employers' actual contributions for fiscal year 2017. This method to be reflective of the employers' long-term contribution effort. At June 30, 2017, the City's proportion was 0.029358% for nonhazardous and .077978% for hazardous.

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 19 – Post-Employment Benefits Other than Pensions (OPEB) (continued)

For the year ended June 30, 2018, the City recognized OPEB expense of \$165,416. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between employer contribution and proportionate share of contribution	\$ -	\$ 1,497
Implicit subsidy	7,219	2,212
Differences between expected and actual results	-	3,142
Changes of assumptions	366,241	-
Net difference between projected and actual earnings on Plan investments	-	68,347
City contributions subsequent to the measurement date	80,461	-
Total	<u>\$ 453,921</u>	<u>\$ 75,198</u>

The \$80,461 of deferred outflows of resources resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,	
2019	\$73,382
2020	73,382
2021	73,382
2022	42,696
2023	23,761
Thereafter	6,652

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

City of Russell Springs, Kentucky
Notes to Financial Statements (Continued)
June 30, 2018

Note 20 – Prior Period Adjustment

The GASB has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The City has implemented this statement, to its financial statements for the year ending June 30, 2018, effective July 1, 2017.

In addition, during the year, the City determined that two governmental activity vehicles loans were overstated by \$30,432 at June 30, 2017. The correction of the error was recorded this year as a prior period adjustment to beginning net assets.

As a result of the implementation of the new accounting standard and the correction of the error, the City restated beginning net position for governmental and business-type activities as noted below:

	Governmental Activities	Business Activities
Beginning of year, as previously reported		
Net Position	\$2,022,569	\$7,089,799
Correction of error - overstatement of vehicle loans	30,432	-
Net OPEB liability	(658,261)	(190,862)
Deferred outflows of resources	68,404	19,834
Beginning of year, as restated		
Net Position	<u>\$1,463,144</u>	<u>\$6,918,771</u>

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

	June 30, 2015		June 30, 2016		June 30, 2017		June 30, 2018	
	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	Non-Hazardous
City's proportion of the net pension liability	0.061450%	0.028644%	0.066330%	0.029001%	0.076253%	0.028336%	0.077978%	0.029369%
City's proportionate share of the net pension liability	\$ 738,402	\$ 928,353	\$ 1,018,236	\$ 1,246,914	\$ 1,308,471	\$ 1,395,161	\$ 1,744,585	\$ 1,718,999
City's covered-employee payroll	\$ 353,949	\$ 634,516	\$ 394,788	\$ 678,576	\$ 428,358	\$ 714,607	\$ 481,689	\$ 746,228
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	208.62%	146.31%	257.92%	183.75%	305.46%	195.23%	362.18%	230.36%
Plan fiduciary net position as a percentage of the total pension liability	63.46%	66.80%	57.52%	59.97%	53.95%	55.50%	49.80%	53.50%

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

	Hazardous				Non-Hazardous			
	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
Contractually required contribution	\$ 73,374	\$ 79,984	\$ 92,997	\$ 95,095	\$ 81,091	\$ 84,347	\$ 99,688	\$ 103,475
Contributions in relation to the contractually required contribution	(73,374)	(79,984)	(92,997)	(95,095)	(81,091)	(84,347)	(99,688)	(103,475)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City's covered-employee payroll	\$ 353,949	\$ 394,788	\$ 428,358	\$ 428,358	\$ 634,516	\$ 678,576	\$ 714,607	\$ 714,607
Contributions as a percentage of covered-employee payroll	20.73%	20.26%	21.71%	22.20%	12.78%	12.43%	13.95%	14.48%

City of Russell Springs, Kentucky
Schedule of the City's OPEB Contributions
County Employees' Retirement System
Fiscal Year 2018

	<u>Hazardous</u>	<u>Non-Hazardous</u>
Contractually required contribution	\$ 45,038	\$ 35,073
Contributions in relation to the contractually required contribution	<u>(45,038)</u>	<u>(35,073)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 481,689	\$ 746,228
Contributions as a percentage of covered-employee payroll	9.35%	4.70%

City of Russell Springs, Kentucky
Schedule of Changes in the City's OPEB Liability
County Employees' Retirement System
Fiscal Year 2018

Change in the Net OPEB Liability	<u>Hazardous</u>	<u>Non-Hazardous</u>
Total OPEB liability		
Service Cost	\$ 15,980	\$ 25,100
Interest	88,245	70,734
Benefit Changes	-	-
Difference between actual and expected experience	(1,926)	(1,950)
Assumption Changes	304,942	152,798
Benefit Payments	<u>(49,638)</u>	<u>(41,151)</u>
Net Change on Total OPEB Liability	357,602	205,531
Total OPEB Liability - Beginning	<u>1,214,179</u>	<u>1,034,644</u>
Total OPEB Liability - Ending	<u><u>\$ 1,571,781</u></u>	<u><u>\$ 1,240,175</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 34,564	\$ 39,155
Contributions - Member	1,332	2,689
Benefit Payments	(49,638)	(41,151)
Net Investment Income	112,204	77,761
Administrative Expense	(297)	(232)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>98,165</u>	<u>78,224</u>
Plan Fiduciary Net Position - Beginning	<u>828,994</u>	<u>571,554</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 927,160</u></u>	<u><u>\$ 649,777</u></u>
Net OPEB Liability - Ending	644,622	590,397
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	59.0%	52.4%
Covered Payroll	\$ 481,689	\$ 746,228
Net OPEB Liability as a Percentage of Covered Payroll	133.8%	79.1%

City of Russell Springs, Kentucky
Schedule of Water and Sewer Activities
For the Year Ended June 30, 2018

	<u>Water Services</u>	<u>Sewer Services</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 2,316,617	\$ 930,373	\$ 3,246,990
Total Operating Revenues	<u>2,316,617</u>	<u>930,373</u>	<u>3,246,990</u>
Operating Expenses			
Salaries	267,549	81,408	348,957
Payroll taxes	20,694	6,161	26,855
Motor fuels	20,015	31,045	51,060
Depreciation and amortization	240,149	195,455	435,604
Maintenance	78,716	29,459	108,175
Utilities	43,398	55,161	98,559
Chemicals	3,458	-	3,458
Employee benefits	228,183	64,332	292,515
Insurance	65,251	-	65,251
Supplies	108,964	54,414	163,378
Office supplies	2,978	-	2,978
Technical Supplies	5,245	-	5,245
Tools	60	-	60
Professional fees	25,263	17,178	42,441
Advertising and printing	1,143	-	1,143
Lab analysis	6,326	-	6,326
Water purchases	921,654	-	921,654
Sanitation - Sewer and Garbage	-	791,046	791,046
Dues and subscriptions	438	-	438
Uniforms	4,202	1,667	5,869
Miscellaneous	7,100	9,790	16,890
Sales tax	38,660	-	38,660
Utility tax	28,037	28,037	56,074
Communications and postage	26,298	-	26,298
Total Operating Expenses	<u>2,143,781</u>	<u>1,365,153</u>	<u>3,508,934</u>
Operating Income (Loss)	<u>\$ 172,836</u>	<u>\$ (434,780)</u>	<u>\$ (261,944)</u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Russell Springs, Kentucky's basic financial statements and have issued our report thereon dated November 14, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2018-1 and 2018-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 2018-3 to be a significant deficiency.

Compliance and Other Matters

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

City of Russell Springs, Kentucky Responses to Findings

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

Purpose of this Report

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

Baldwin CPAs, PLLC

Baldwin CPAs, PLLC
November 14, 2018

CITY OF RUSSELL SPRINGS
Schedule of Findings and Responses (Continued)
June 30, 2018

A. Findings – Financial Statement Audit

2018-1

Criteria:

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

Condition:

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

Cause:

The City's internal financial statements that are prepared by Management are not required to be prepared in accordance generally accepted accounting principles (GAAP). However, the City's financial statements that are submitted for external audit are required to be prepared in accordance with GAAP. Currently the City has limited resources to review their financial statements and related note disclosures in relation to GAAP to provide reasonable assurance that reliable financial reporting will be achieved. We have previously reported this deficiency to you in our audits performed in prior years.

Effect:

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

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

In order to eliminate the control deficiency, Management must be intentional is its plan to prepare financial statements that are in accordance with GAAP. The following includes suggestions to strengthen internal controls over financial reporting:

- Knowledgeable personnel monitor changes in authoritative guidance and make the appropriate changes to the entity's accounting policies and procedures on a timely basis. In addition, obtain annual training and updates on governmental accounting and financial reporting issues.
- An independent review of significant judgments and estimates included in the financial records is performed on a periodic basis by knowledgeable personnel. An independent review of the financial statements and all related disclosures is performed by management and/or other suitably qualified personnel for completeness, consistency, and compliance with GAAP and the entity's accounting and disclosure policies. This independent review can include discussion and consulting with the external auditor.
- Up-to-date disclosure checklists are used to ensure that all relevant financial information is disclosed in the appropriate accounting period in accordance with GAAP and the entity's accounting and disclosure policies.
- For each financial statement disclosure, a supporting analysis is prepared and documented in accordance with relevant GAAP and the entity's accounting and disclosure policies.

CITY OF RUSSELL SPRINGS
Schedule of Findings and Responses (Continued)
June 30, 2018

2018-1 (continued)

- All financial statements and related disclosures are approved by management prior to the release of the reports to third parties.

Views of responsible officials and planned corrective actions:

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

2018-2

Criteria:

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

Condition:

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

Cause:

During our audit and understanding of the City's internal controls, we noted that certain accounting functions are not properly segregated to provide optimal internal control. We have previously reported this deficiency to you in our audits performed in prior years. Although management has taken recent steps to delegate certain accounting responsibilities and functions in an effort to improve internal controls, certain functions still remain incompatible.

Currently, the City Clerk and Deputy Clerk are involved in nearly all aspects of the financial reporting functions of the City. These functions include taking the cash deposits to the bank, recording transactions to the general ledger, reconciling bank statements, transferring funds between accounts, making journal entries, processing vendor invoices to be paid, preparing checks in payment of vendor invoices, signing checks, and making changes to personnel files.

Effect:

Segregation of duties is critical to effective internal control as it reduces the risk of both erroneous and inappropriate actions.

In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act.

Adequate segregation of duties means that at least two individuals are involved with every fiscal transaction to ensure it is accurate and proper. Ideally, there should be at least two individuals involved with every fiscal transaction before it occurs to ensure adequate review for accuracy and to reduce the risk of impropriety. Segregation of duties is considered as being a preventive control because it prevents an event from occurring, rather than discovering an error after-the-act.

CITY OF RUSSELL SPRINGS
Schedule of Findings and Responses (Continued)
June 30, 2018

2018-2 (continued)

If an Organization doesn't have adequate staff size to effectively segregate duties for all accounting functions, then compensating controls should be incorporated to provide reasonable assurance that fiscal transactions are being monitored for accuracy and propriety. The compensating controls do not eliminate the deficiency but may mitigate the effects of the control deficiency.

Compensating controls are less desirable than the segregation of duties internal control because compensating controls generally occur after the transaction is complete. Also, it takes more resources to investigate and correct errors and to recover losses than it does to prevent the errors in the first place. However, in some circumstances, organizational units do not have the staff resources to establish adequate segregation of duties. In these instances, it is important for management to implement internal controls that compensate for this increased risk. The following is a list of compensating controls that can be used by the City.

Compensating Control A: Review report of Details of Transactions

At a minimum, fiscal managers having fiscal staff who can perform all aspects of key accounting functions should be doing a monthly review of their organizational unit's revenue and expense statement detail and balance sheet statement detail to identify, investigate, and correct improper charges. An adequate review will take into consideration the transaction date, vendor, description, dollar amount and account. Compensating control review must be physically documented by the reviewer and the reviewer should be independent of the financial reporting process.

Compensating Control B: Pull a Sample of Transactions

The reviewer can periodically pull and review the supporting documents for a transaction sample selected from transactions initiated by the person with incompatible access.

Compensating Control C: Review Journal Entries

The reviewer should review all transactions on this report for appropriateness and should investigate and remediate any concerns. An adequate review will take into consideration the transaction date, description, dollar amount, and account. The review must incorporate supporting documentation for all material journal entries.

Compensating Control D: Review Vender Report

The reviewer should review all paid vendors on the vender report for appropriateness and should investigate and remediate any concerns. An adequate review will take into consideration the transaction date, description, dollar amount, and account.

Views of responsible officials and planned corrective actions:

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

CITY OF RUSSELL SPRINGS
Schedule of Findings and Responses (Continued)
June 30, 2018

2018-3

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Views of responsible officials and planned corrective actions:

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