

CITY OF RUSSELL SPRINGS
Russell Springs, Kentucky

FINANCIAL STATEMENTS
June 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Russell Springs, Kentucky to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Russell Springs, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Russell Springs, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Russell Springs, Kentucky's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and other post-employment benefits (OPEB) schedules on pages 4-8 and 37-45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Russell Springs, Kentucky's basic financial statements. The schedule of water and sewer activities is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The 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 activities 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 July 23, 2024, on our consideration of the City of Russell Springs, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Russell Springs, Kentucky's 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.

RFH

RFH, PLLC
Lexington, Kentucky
July 23, 2024

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2022

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, 2022. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- Retirement rates for fiscal year FY 21-22 were 26.95% for non-hazardous and 44.33% for hazardous
- General Fund revenues totaled to approximately \$3.5 million for FY 2022 which represented a 3.5% increase from FY 2021.
- The City made several capital purchases during the year including new vehicles for police and ABC operations and street improvements. The City completed construction on a park shelter. The City purchased land for a new industrial park. Water and Sewer made several capital purchases including sewer pumps and new vehicles.
- The property tax rate for 2022 was .163 per \$100 of assessed property value.
- Cash available for use to pay the General Fund's obligations as of June 30, 2022 is approximately \$2.1 million which was an increase compared to the prior year balance of \$1.5 million.
- The City's total General Fund revenues were under budget by approximately \$111,000 and expenses were over budget by approximately \$532,000, primarily related to capital purchases.
- The City's proportionate share of the CERS net pension and OPEB liability decreased approximately \$1,214,000 from the previous fiscal year, from approximately \$5,256,000 to \$6,470,000.
- In FY 2022, City made all scheduled debt service payments. The City entered into a promissory note to finance the purchase of land for a new industrial park with a balance of \$1,426,082 at the end of the year. The City entered into a promissory note to finance a sewer rehab project with a balance of \$450,625 at the end of the year.

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 and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Russell Springs is improving or deteriorating. The statement of activities presents information showing how the City of Russell Springs' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2022

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 10-15 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 16-35 of this report. The City of Russell Springs' financial position is the product of several financial transactions including the net results of the activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, the depreciation of capital assets and changes in the net pension liability.

THE CITY AS A WHOLE

Table 1
Net Position (in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals | |
|--------------------------------|----------------------------|----------|-----------------------------|----------|----------|----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Current and other assets | \$ 2,901 | \$ 2,188 | \$ 2,383 | \$ 1,821 | \$ 5,284 | \$ 4,009 |
| Capital assets | 3,722 | 2,169 | 8,645 | 8,539 | 12,367 | 10,708 |
| Total assets | 6,623 | 4,357 | 11,028 | 10,360 | 17,651 | 14,717 |
| Deferred outflows of resources | 863 | 1,059 | 441 | 430 | 1,304 | 1,489 |
| Current liabilities | 948 | 212 | 762 | 650 | 1,710 | 862 |
| Non-current liabilities | 5,726 | 5,607 | 3,677 | 3,397 | 9,403 | 9,004 |
| Total liabilities | 6,674 | 5,819 | 4,439 | 4,047 | 11,113 | 9,866 |
| Deferred inflows of resources | 1,133 | 272 | 475 | 61 | 1,608 | 333 |
| Net position: | | | | | | |
| Invested in capital assets | | | | | | |
| net of debt | 1,679 | 1,478 | 6,302 | 6,510 | 7,981 | 7,988 |
| Restricted | 100 | 72 | 484 | 435 | 584 | 507 |
| Unrestricted | (2,099) | (2,225) | (231) | (263) | (2,330) | (2,488) |
| Total net position | \$ (320) | \$ (675) | \$ 6,555 | \$ 6,682 | \$ 6,235 | \$ 6,007 |

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2022

Table 2
Changes in Net Position (in Thousands)

| | Governmental Activities | | Business-type Activities | | Totals | |
|-------------------------------------|----------------------------|----------|-----------------------------|----------|----------|----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 35 | \$ 26 | \$ 3,766 | \$ 3,610 | \$ 3,801 | \$ 3,636 |
| Operating grants and contributions | 165 | 316 | 10 | - | 175 | 316 |
| Capital grants and contributions | 49 | 52 | 77 | 69 | 126 | 121 |
| General revenues: | | | | | | |
| Taxes | 412 | 421 | - | - | 412 | 421 |
| Licenses and permits | 2,649 | 2,451 | - | - | 2,649 | 2,451 |
| Fines and forfeits | 6 | 3 | - | - | 6 | 3 |
| Intergovernmental programs | - | - | - | - | - | - |
| Other revenue | 137 | 66 | 11 | 1 | 148 | 67 |
| Gain (Loss) on sale of fixed asset | - | - | - | - | - | - |
| Total Revenues | 3,453 | 3,335 | 3,864 | 3,680 | 7,317 | 7,015 |
| Program expenses: | | | | | | |
| General government | 1,096 | 1,248 | - | - | 1,096 | 1,248 |
| Police and ABC | 1,169 | 1,476 | - | - | 1,169 | 1,476 |
| Fire | 165 | 154 | - | - | 165 | 154 |
| Highway and streets | 183 | 111 | - | - | 183 | 111 |
| Parks | 506 | 498 | - | - | 506 | 498 |
| Cemetery | 44 | 1 | - | - | 44 | 1 |
| Interest on long-term debt | 39 | 16 | - | - | 39 | 16 |
| Unallocated depreciation | - | - | - | - | - | - |
| Water and sewer | - | - | 3,881 | 3,475 | 3,881 | 3,475 |
| Senior citizens | - | - | 50 | 52 | 50 | 52 |
| Total expenses | 3,202 | 3,504 | 3,931 | 3,527 | 7,133 | 7,031 |
| Excess (deficiency) gain (loss) | 251 | (169) | (67) | 153 | 184 | (16) |
| Gain (loss) on sale of assets | 103 | - | - | - | 103 | - |
| Increase (decrease) in net position | \$ 354 | \$ (169) | \$ (67) | \$ 153 | \$ 287 | \$ (16) |

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2022

CAPITAL ASSETS

In FY 2022, the City made several capital purchases during the year including new vehicles for police and ABC operations and street improvements. The City completed construction on a park shelter. The City purchased land for a new industrial park. Water and Sewer made several capital purchases including sewer pumps and new vehicles.

Table 3
Capital Assets (in Thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|-----------------|-----------------------------|------------------|------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Vehicles & equipment | \$ 2,015 | \$ 1,830 | \$ 1,182 | \$ 1,192 | \$ 3,197 | \$ 3,022 |
| Buildings | 2,405 | 2,203 | 1,377 | 1,377 | 3,782 | 3,580 |
| Land and Improvements | 1,504 | 255 | 190 | 190 | 1,694 | 445 |
| Infrastructure Assets | 212 | 212 | - | - | 212 | 212 |
| Construction in progress | - | - | 546 | - | 546 | - |
| Water and Sewer Systems | - | - | 16,706 | 16,706 | 16,706 | 16,706 |
| Totals | <u>\$ 6,136</u> | <u>\$ 4,500</u> | <u>\$ 20,001</u> | <u>\$ 19,465</u> | <u>\$ 26,137</u> | <u>\$ 23,965</u> |

DEBT

Rural Development requires interest payments by April 1 and interest and principal payments by October 1, of each year. KIA loans 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 | |
|---------------|----------------------------|---------------|-----------------------------|-----------------|-----------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| Notes Payable | \$ 2,043 | \$ 692 | \$ 876 | \$ 451 | \$ 2,919 | \$ 1,143 |
| Revenue Bonds | - | - | 1,466 | 1,578 | 1,466 | 1,578 |
| Totals | <u>\$ 2,043</u> | <u>\$ 692</u> | <u>\$ 2,342</u> | <u>\$ 2,029</u> | <u>\$ 4,385</u> | <u>\$ 2,721</u> |

City of Russell Springs, Kentucky
Management's Discussion and Analysis (MD&A)
June 30, 2022

COMMENTS ON BUDGET COMPARISONS

- Raises were given to all employees.
- Water and Sewer rates were increased by ordinance during FY 22-21.

THE CITY'S FUNDS

More utility customers continue to use credit cards to pay their utility bill. The Community Center remains 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, 2022

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 2,092,450 | \$ 1,067,587 | \$ 3,160,037 |
| Investments | 4,141 | - | 4,141 |
| Receivables, net | 568,962 | 570,798 | 1,139,760 |
| Lease receivable | - | 157,583 | 157,583 |
| Inventory | - | 238,920 | 238,920 |
| Internal balances | 135,204 | (135,204) | - |
| Total current assets | 2,800,757 | 1,899,684 | 4,700,441 |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | 99,799 | 483,868 | 583,667 |
| Capital assets | | | |
| Land | 1,504,843 | 189,999 | 1,694,842 |
| Construction in progress | - | 546,209 | 546,209 |
| Utility systems, net | - | 6,724,867 | 6,724,867 |
| Infrastructure, net | 201,529 | - | 201,529 |
| Depreciable buildings, property, vehicles, and equipment, net | 2,016,573 | 1,184,311 | 3,200,884 |
| Total noncurrent assets | 3,822,744 | 9,129,254 | 12,951,998 |
| Total assets | 6,623,501 | 11,028,938 | 17,652,439 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows - pension | 453,210 | 230,127 | 683,337 |
| Deferred outflows - OPEB | 409,694 | 210,921 | 620,615 |
| Total deferred outflows of resources | 862,904 | 441,048 | 1,303,952 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 7,486,405 | \$ 11,469,986 | \$ 18,956,391 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | 46,979 | 198,180 | 245,159 |
| Construction payable | - | 73,437 | 73,437 |
| Retainage payable | - | 22,147 | 22,147 |
| Customer deposits payable | - | 285,933 | 285,933 |
| Accrued liabilities | 104,641 | 40,980 | 145,621 |
| Unearned revenue | 695,072 | - | 695,072 |
| Accrued interest payable | - | 3,065 | 3,065 |
| Current portion of long-term obligations | 101,739 | 138,746 | 240,485 |
| Total current liabilities | 948,431 | 762,488 | 1,710,919 |
| Noncurrent liabilities | | | |
| Noncurrent portion of long-term obligations | 1,942,098 | 2,203,978 | 4,146,076 |
| Net pension liability | 2,905,385 | 1,133,017 | 4,038,402 |
| Net OPEB liability | 878,345 | 340,154 | 1,218,499 |
| Total noncurrent liabilities | 5,725,828 | 3,677,149 | 9,402,977 |
| Total liabilities | 6,674,259 | 4,439,637 | 11,113,896 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows - pension | 699,690 | 162,009 | 861,699 |
| Deferred inflows - OPEB | 432,977 | 155,242 | 588,219 |
| Deferred inflows - leases | - | 157,583 | 157,583 |
| Total deferred inflows of resources | 1,132,667 | 474,834 | 1,607,501 |
| NET POSITION | | | |
| Net investment in capital assets | 1,679,108 | 6,302,662 | 7,981,770 |
| Restricted for: | | | |
| Debt service | - | 483,868 | 483,868 |
| Other | 99,799 | - | 99,799 |
| Unrestricted | (2,099,428) | (231,015) | (2,330,443) |
| Total net position | (320,521) | 6,555,515 | 6,234,994 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES | | | |
| AND NET POSITION | \$ 7,486,405 | \$ 11,469,986 | \$ 18,956,391 |

The accompanying notes are an integral
part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
STATEMENT OF ACTIVITIES
for the year ended June 30, 2022

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position Primary Government | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 1,096,049 | \$ - | \$ 56,097 | \$ - | \$ (1,039,952) | \$ - | \$ (1,039,952) |
| Police and ABC | 1,169,899 | - | 84,687 | - | (1,085,212) | - | (1,085,212) |
| Fire | 164,900 | - | 1,380 | - | (163,520) | - | (163,520) |
| Highways and streets | 182,584 | - | - | 48,744 | (133,840) | - | (133,840) |
| Culture and recreation | 505,997 | 35,817 | - | - | (470,180) | - | (470,180) |
| Cemetery | 44,354 | - | 22,700 | - | (21,654) | - | (21,654) |
| Interest on long-term debt | 39,510 | - | - | - | (39,510) | - | (39,510) |
| Total governmental activities | 3,203,293 | 35,817 | 164,864 | 48,744 | (2,953,868) | - | (2,953,868) |
| Business-type activities | | | | | | | |
| Water and Sewer | 3,881,316 | 3,749,624 | 10,010 | 77,447 | - | (44,235) | (44,235) |
| Senior Citizens | 50,163 | 16,550 | - | - | - | (33,613) | (33,613) |
| Total business-type activities | 3,931,479 | 3,766,174 | 10,010 | 77,447 | - | (77,848) | (77,848) |
| Total primary government | \$ 7,134,772 | \$ 3,801,991 | \$ 174,874 | \$ 126,191 | (2,953,868) | (77,848) | (3,031,716) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 412,384 | - | 412,384 |
| License fees: | | | | | | | |
| Franchise | | | | | 224,072 | - | 224,072 |
| Insurance premiums | | | | | 844,464 | - | 844,464 |
| Occupational | | | | | 1,269,888 | - | 1,269,888 |
| ABC | | | | | 253,706 | - | 253,706 |
| Other | | | | | 56,915 | - | 56,915 |
| Fines & forfeitures | | | | | 6,130 | - | 6,130 |
| Investment earnings | | | | | 796 | 10,697 | 11,493 |
| Miscellaneous | | | | | 136,316 | - | 136,316 |
| Total general revenues | | | | | 3,204,671 | 10,697 | 3,215,368 |
| Gain (loss) on sale of assets | | | | | 103,229 | - | 103,229 |
| Total general revenues and transfers | | | | | 3,307,900 | 10,697 | 3,318,597 |
| Change in net position | | | | | 354,032 | (67,151) | 286,881 |
| Net position-beginning, as restated | | | | | (674,553) | 6,622,666 | 5,948,113 |
| NET POSITION-ENDING | | | | | \$ (320,521) | \$ 6,555,515 | \$ 6,234,994 |

The accompanying notes are an integral part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022

| | <u>General</u> | <u>Municipal Road Aid</u> | <u>Drug Forfeiture Fund</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------------------|-------------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,125,655 | \$ 52,340 | \$ 14,254 | \$ 2,192,249 |
| Investments | 4,141 | - | - | 4,141 |
| Receivables, net | 568,962 | - | - | 568,962 |
| Due from other funds | <u>135,204</u> | <u>-</u> | <u>-</u> | <u>135,204</u> |
| Total assets | <u>\$ 2,833,962</u> | <u>\$ 52,340</u> | <u>\$ 14,254</u> | <u>\$ 2,900,556</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 46,979 | \$ - | \$ - | \$ 46,979 |
| Accrued liabilities | 104,641 | - | - | 104,641 |
| Unearned revenue | <u>695,072</u> | <u>-</u> | <u>-</u> | <u>695,072</u> |
| Total liabilities | <u>846,692</u> | <u>-</u> | <u>-</u> | <u>846,692</u> |
| Fund balances | | | | |
| Restricted | 33,205 | 52,340 | 14,254 | 99,799 |
| Unassigned | <u>1,954,065</u> | <u>-</u> | <u>-</u> | <u>1,954,065</u> |
| Total fund balances | <u>1,987,270</u> | <u>52,340</u> | <u>14,254</u> | <u>2,053,864</u> |
| Total liabilities and fund balances | <u>\$ 2,833,962</u> | <u>\$ 52,340</u> | <u>\$ 14,254</u> | <u>\$ 2,900,556</u> |

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

| | |
|---|---------------------|
| Fund balances reported above | \$ 2,053,864 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 3,722,945 |
| Net deferred inflows/outflows related to the long-term net pension/OPEB liabilities are not reported in the funds. | (269,763) |
| Long-term liabilities, including notes payable and net pension/OPEB liability, are not due and payable in the current period and therefore are not reported in the funds. | <u>(5,827,567)</u> |
| Net position of governmental activities | <u>\$ (320,521)</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2022

| | General | Municipal Road Aid | Drug Forfeiture Fund | Total Governmental Funds |
|---|---------------------|-------------------------------|-------------------------------------|---|
| REVENUES | | | | |
| Taxes | \$ 412,384 | \$ - | \$ - | \$ 412,384 |
| Licenses and permits | 2,649,045 | - | - | 2,649,045 |
| Intergovernmental | 164,941 | 48,667 | - | 213,608 |
| Fines and forfeitures | 6,130 | - | - | 6,130 |
| Other revenues | 172,929 | - | - | 172,929 |
| Total revenues | 3,405,429 | 48,667 | - | 3,454,096 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,079,423 | - | - | 1,079,423 |
| Police and ABC | 1,116,302 | - | 2,224 | 1,118,526 |
| Fire | 130,311 | - | - | 130,311 |
| Culture and recreation | 517,995 | - | - | 517,995 |
| Highways and streets | 134,390 | - | - | 134,390 |
| Cemetery | 3,244 | 41,110 | - | 44,354 |
| Capital outlay | 1,817,424 | - | - | 1,817,424 |
| Debt service | 113,419 | - | - | 113,419 |
| Total expenditures | 4,912,508 | 41,110 | 2,224 | 4,955,842 |
| Excess (deficiency) of revenues over expenditures | (1,507,079) | 7,557 | (2,224) | (1,501,746) |
| Other Financing Sources (Uses) | | | | |
| Loan proceeds | 1,426,083 | - | - | 1,426,083 |
| Proceeds from sale of assets | 103,229 | - | - | 103,229 |
| Total other financing sources (uses) | 1,529,312 | - | - | 1,529,312 |
| Net Change in Fund Balance | 22,233 | 7,557 | (2,224) | 27,566 |
| Fund balances - beginning | 1,965,037 | 44,783 | 16,478 | 2,026,298 |
| FUND BALANCES - ENDING | \$ 1,987,270 | \$ 52,340 | \$ 14,254 | \$ 2,053,864 |
| Reconciliation to government-wide change in net position: | | | | |
| Net change in fund balances | | | | \$ 27,566 |
| add: capital outlay expenditures capitalized | | | | 1,817,424 |
| add: debt service expenditures | | | | 113,419 |
| less: loan proceeds | | | | (1,426,083) |
| less: change in net pension liability | | | | 123,860 |
| less: change in OPEB liability | | | | 1,268 |
| less: depreciation on governmental activities assets | | | | (263,912) |
| less: interest on long - term debt | | | | (39,510) |
| Change in net position, governmental activities | | | | \$ 354,032 |

The accompanying notes are an integral
part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2022

| | Business-type Activities | | |
|--|-------------------------------------|---------------------------------|----------------------|
| | Water & Sewer Fund | Senior Citizens Fund | Totals |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 994,586 | \$ 73,001 | \$ 1,067,587 |
| Receivables, net | 570,798 | - | 570,798 |
| Lease receivable | 157,583 | - | 157,583 |
| Inventory | 238,920 | - | 238,920 |
| Total current assets | <u>1,961,887</u> | <u>73,001</u> | <u>2,034,888</u> |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | 483,868 | - | 483,868 |
| Capital assets: | | | |
| Land | 10,715 | 179,284 | 189,999 |
| Construction in progress | 546,209 | - | 546,209 |
| Depreciable capital assets | 18,091,494 | 1,184,311 | 19,275,805 |
| Less accumulated depreciation | <u>(10,777,431)</u> | <u>(589,196)</u> | <u>(11,366,627)</u> |
| Total noncurrent assets | <u>8,354,855</u> | <u>774,399</u> | <u>9,129,254</u> |
| Total assets | <u>10,316,742</u> | <u>847,400</u> | <u>11,164,142</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Deferred outflows - pension | 230,127 | - | 230,127 |
| Deferred outflows - OPEB | <u>210,921</u> | <u>-</u> | <u>210,921</u> |
| Total deferred outflows | <u>441,048</u> | <u>-</u> | <u>441,048</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 10,757,790</u> | <u>\$ 847,400</u> | <u>\$ 11,605,190</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 198,180 | \$ - | \$ 198,180 |
| Construction payable | 73,437 | - | 73,437 |
| Retainage payable | 22,147 | - | 22,147 |
| Customer deposits payable | 285,933 | - | 285,933 |
| Accrued liabilities | 40,980 | - | 40,980 |
| Accrued interest payable | 3,065 | - | 3,065 |
| Due to other funds | 119,613 | 15,591 | 135,204 |
| Current portion of long-term obligations | <u>138,746</u> | <u>-</u> | <u>138,746</u> |
| Total current liabilities | <u>882,101</u> | <u>15,591</u> | <u>897,692</u> |
| Noncurrent liabilities | | | |
| Noncurrent portion of long-term obligations | 2,203,978 | - | 2,203,978 |
| Net pension liability | 1,133,017 | - | 1,133,017 |
| Net OPEB liability | <u>340,154</u> | <u>-</u> | <u>340,154</u> |
| Total noncurrent liabilities | <u>3,677,149</u> | <u>-</u> | <u>3,677,149</u> |
| Total liabilities | <u>4,559,250</u> | <u>15,591</u> | <u>4,574,841</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows - pension | 162,009 | - | 162,009 |
| Deferred inflows - OPEB | 155,242 | - | 155,242 |
| Deferred inflows - leases | <u>157,583</u> | <u>-</u> | <u>157,583</u> |
| Total deferred inflows | <u>474,834</u> | <u>-</u> | <u>474,834</u> |
| NET POSITION | | | |
| Net investment in capital assets | 5,528,263 | 774,399 | 6,302,662 |
| Restricted for other purposes | 483,868 | - | 483,868 |
| Unrestricted | <u>(288,425)</u> | <u>57,410</u> | <u>(231,015)</u> |
| Total net position | <u>5,723,706</u> | <u>831,809</u> | <u>6,555,515</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 10,757,790</u> | <u>\$ 847,400</u> | <u>\$ 11,605,190</u> |

The accompanying notes are an integral
part of the financial statements.

**CITY OF RUSSELL SPRINGS, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2022**

| | Business-type Activities | | Totals |
|---|-------------------------------------|---------------------------------|---------------------|
| | Water & Sewer Fund | Senior Citizens Fund | |
| Operating revenues | | | |
| Charges for services | \$ 3,570,474 | \$ 16,550 | \$ 3,587,024 |
| Penalties | 47,355 | - | 47,355 |
| Other revenue | 131,795 | - | 131,795 |
| Total operating revenues | 3,749,624 | 16,550 | 3,766,174 |
| Operating expenses | | | |
| Salaries | 493,278 | - | 493,278 |
| Payroll taxes | 36,649 | - | 36,649 |
| Motor fuels | 40,133 | - | 40,133 |
| Depreciation and amortization | 472,450 | 49,867 | 522,317 |
| Maintenance | 78,783 | 281 | 79,064 |
| Utilities | 101,146 | - | 101,146 |
| Chemicals | 5,924 | - | 5,924 |
| Employee benefits | 468,888 | - | 468,888 |
| Insurance | 60,956 | - | 60,956 |
| Supplies | 378,858 | - | 378,858 |
| Office supplies | 2,960 | - | 2,960 |
| Professional fees | 18,914 | 15 | 18,929 |
| Advertising and printing | 443 | - | 443 |
| Lab analysis | 5,240 | - | 5,240 |
| Water purchases | 811,366 | - | 811,366 |
| Sanitation - Sewer and Garbage | 715,130 | - | 715,130 |
| Contractual services | 30,715 | - | 30,715 |
| Water meters | 8,070 | - | 8,070 |
| Travel and lodging | 1,308 | - | 1,308 |
| Dues and subscriptions | 4,362 | - | 4,362 |
| Uniforms | 12,107 | - | 12,107 |
| Miscellaneous | 61,223 | - | 61,223 |
| Communications and postage | 34,378 | - | 34,378 |
| Total operating expenses | 3,843,281 | 50,163 | 3,893,444 |
| Operating income (loss) | (93,657) | (33,613) | (127,270) |
| Nonoperating revenues (expenses) | | | |
| Interest and investment revenue | 10,697 | - | 10,697 |
| Interest expense | (38,035) | - | (38,035) |
| Total nonoperating revenues (expenses) | (27,338) | - | (27,338) |
| Income before capital contributions and transfers | (120,995) | (33,613) | (154,608) |
| Capital contributions | | | |
| Water and sewer tap fees | 77,447 | - | 77,447 |
| Grants | 10,010 | - | 10,010 |
| Increase (decrease) in net position | (33,538) | (33,613) | (67,151) |
| Total net position-beginning, as restated | 5,757,244 | 865,422 | 6,622,666 |
| TOTAL NET POSITION-ENDING | \$ 5,723,706 | \$ 831,809 | \$ 6,555,515 |

The accompanying notes are an integral
part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2022

| | Business-type Activities | | Totals |
|--|-------------------------------------|---------------------------------|---------------------|
| | Water & Sewer Fund | Senior Citizens Fund | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 3,692,148 | \$ 16,550 | \$ 3,708,698 |
| Payments to suppliers for goods or services | (2,435,161) | - | (2,435,161) |
| Payments for employee services and benefits | (846,022) | (296) | (846,318) |
| Net cash and cash equivalents provided by operating activities | 410,965 | 16,254 | 427,219 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Receipts (payments) on interfund loans | 16,952 | - | 16,952 |
| Net cash and cash equivalents provided by noncapital financing activities | 16,952 | - | 16,952 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Capital contributions - tap fees | 77,447 | - | 77,447 |
| Grants received | 10,010 | - | 10,010 |
| Purchases of capital assets | (533,489) | - | (533,489) |
| Proceeds from notes payable | 450,625 | - | 450,625 |
| Principal paid on capital debt | (136,822) | - | (136,822) |
| Interest paid on capital debt | (37,762) | - | (37,762) |
| Net cash and cash equivalents (used by) capital and related financing activities | (169,991) | - | (169,991) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | 10,697 | - | 10,697 |
| Net cash and cash equivalents provided by investing activities | 10,697 | - | 10,697 |
| Net increase (decrease) in cash and cash equivalents | 268,623 | 16,254 | 284,877 |
| Balances-beginning of the year | 1,209,831 | 56,747 | 1,266,578 |
| BALANCES-END OF THE YEAR | <u>\$ 1,478,454</u> | <u>\$ 73,001</u> | <u>\$ 1,551,455</u> |
| Reconciliation of operating income (loss) to net cash and cash equivalents provided (used) by operating activities: | | | |
| Operating income (loss) | \$ (93,657) | \$ (33,613) | \$ (127,270) |
| Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided (used) by operating activities: | | | |
| Depreciation and amortization | 472,450 | 49,867 | 522,317 |
| Net pension liability activity | 168,577 | - | 168,577 |
| Net OPEB liability activity | 45,172 | - | 45,172 |
| Change in assets and liabilities: | | | |
| Receivables, net | (52,677) | - | (52,677) |
| Inventory | (143,619) | - | (143,619) |
| Customer deposits payable | (4,799) | - | (4,799) |
| Accounts and other payables | 11,251 | - | 11,251 |
| Accrued expenses | 8,267 | - | 8,267 |
| Net cash and cash equivalents provided by operating activities | <u>\$ 410,965</u> | <u>\$ 16,254</u> | <u>\$ 427,219</u> |

The accompanying notes are an integral
part of the financial statements.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Russell Springs, Kentucky ("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. Reporting Entity

Generally accepted accounting principles require governmental entities to determine the agencies or entities which comprise the government for financial reporting purposes, the criteria of oversight responsibility over such agencies or entities, special financing relationships and scope of public service provided by the agencies or entities are used. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. 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.

B. Basis of Presentation

The City's financial statements consist of the following:

Management's discussion and analysis (required supplementary information)

Basic Financial Statements

 Government-wide financial statements

 Fund financial statements

 Notes to financial statements

Budgetary Comparison and Pension/OPEB Schedules (required supplementary information)

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.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, continued

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.

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:

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.

Municipal Road Aid – major fund accounts for receipts and expenditures from the state municipal aid program.

Special Revenue Fund – major fund that accounts for drug forfeitures and related expenditures.

The City reports the following major proprietary funds:

Water and Sewer Fund – is used to account for water, sewer, and sanitation activities.

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. 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.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Budgeting

The City follows the procedures established pursuant to Section 91A.030 of the Kentucky Revised Statutes in establishing the budgetary data reflected in the financial statements. Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles.

The City adopts budget ordinances in a summarized format that provide totals on a functional or department basis. Budgeted amounts in the financial statements are presented in a summarized format. For the year ended June 30, 2022, expenditures exceeded appropriations in the General Fund by \$532,350. The over budget amounts are primarily related to capital outlay.

D. 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.

E. Investments

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

F. Inventory

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

G. Accounts Receivable - Proprietary 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.

H. Allowance for Doubtful Accounts

The City has provided for an allowance for doubtful accounts for the year ended June 30, 2022 totaling \$46,961 in the Water & Sewer Fund based upon the City's estimate of the collectability of accounts receivable.

I. 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 position 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 position and in the respective funds.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets, continued

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.

J. 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.

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.

K. 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.

L. 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.

M. 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.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net 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 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.

O. Interfund Balances

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

P. 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.

Q. Management's Review of Subsequent Events

The City evaluated and considered the need to recognize or disclose subsequent events through July 23, 2024 which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2022, have not been evaluated by the City.

R. Fund Balance

In fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into nonspendable and spendable components, if applicable. The City breaks down both nonspendable and spendable fund balance components into the following components:

Nonspendable – amounts that must be maintained intact legally or contractually.

Restricted – amounts constrained for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed – amounts constrained for a specific purpose by the City using its highest level of decision making authority. For resources considered to be committed, the City issues an ordinance that can be changed with another corresponding ordinance.

Assigned – for all governmental funds, other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed. For the General Fund, amounts constrained, by intent, to be used for a specific purpose by the City or the elected City official given authority to assign amounts. For resources considered to be assigned, the City has designated the Mayor to carry the intent of the City Council.

Unassigned – for the General Fund, amounts not classified as nonspendable, restricted, committed or assigned. For all other government funds, amounts expended in excess of resources that are nonspendable, restricted, committed or assigned.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Change in Accounting Policy

In June 2017, the GASB issued Statement No. 87, *Leases* which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee 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. The City, implemented GASB 87 during the fiscal year ending June 30, 2022. These changes were incorporated in the City's June 30, 2022 financial statements and had no effect on the beginning net position or fund balances of the City.

2. CASH AND INVESTMENTS

KRS 66.480 authorizes the City to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which have a physical presence in Kentucky and are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4). The Statute also authorizes investment in mutual funds, exchange traded funds, individual equity securities and high-quality corporate bonds that are managed by a professional investment manager and subject to additional requirements outlined in KRS 66.480.

The City of Russell Springs' deposits and investments at June 30, 2022, were fully covered by federal depository insurance and pledged collateral. The book balances of the City's deposits were \$3,747,845, and the bank balances were \$3,767,802. As of June 30, 2022, the City had deposits totaling \$891,837 that were covered by FDIC insurance and \$2,875,965 covered by collateral pledged by the bank and held in the City's name.

Statement of Cash Flow

The Water & Sewer Fund Statement of Cash Flows includes as cash and cash equivalents all cash restricted or unrestricted as follows:

| | |
|---------------------------------|---------------------|
| Cash | \$ 994,586 |
| Cash-Restricted | <u>483,868</u> |
| Total cash and cash equivalents | <u>\$ 1,478,454</u> |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2022 for all funds of the City is as follows:

| | Customer Accounts | Taxes | Licenses & Permits | Intergov. | Allowance | Total |
|---------------|------------------------------|-----------------|-----------------------------------|------------------|--------------------|---------------------|
| General Fund | \$ - | \$ 5,041 | \$ 563,921 | \$ - | \$ - | \$ 568,962 |
| Water & Sewer | <u>617,759</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(46,961)</u> | <u>570,798</u> |
| Totals | <u>\$ 617,759</u> | <u>\$ 5,041</u> | <u>\$ 563,921</u> | <u>\$ -</u> | <u>\$ (46,961)</u> | <u>\$ 1,139,760</u> |

4. LEASE RECEIVABLE AND DEFERRED INFLOWS OF RESOURCES

During 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which requires recognition of certain assets that previously were classified as operating leases and recognized as revenue based on the payment provisions of the contract. The City entered into an agreement with Verizon Wireless on August 11, 2021 which resulted in the City recognizing both a lease receivable and a deferred inflow of resources related to a cell phone tower lease agreement totaling \$162,642. The lease agreement has an initial term of five years, with two five-year renewal options at the option of the lessee. The City has calculated the present value of future lease payments based on an incremental borrowing rate of 2.75%. The present value of expected future minimum leases payments are as follows:

| Fiscal Year | Principal | Interest | Total |
|--------------------|-------------------|------------------|-------------------|
| 2023 | \$ 7,885 | \$ 4,235 | \$ 12,120 |
| 2024 | 8,287 | 4,013 | 12,300 |
| 2025 | 8,700 | 3,780 | 12,480 |
| 2026 | 9,132 | 3,536 | 12,668 |
| 2027 | 9,581 | 3,279 | 12,860 |
| 2028-2032 | 55,195 | 12,089 | 67,284 |
| 2033-2035 | <u>58,803</u> | <u>3,681</u> | <u>62,484</u> |
| Total | <u>\$ 157,583</u> | <u>\$ 34,613</u> | <u>\$ 192,196</u> |

Additionally, the City recognized deferred inflows of resources related to the above leases that totaled \$157,583 as of June 30, 2022. The deferred inflows of resources will be recognized over the term of the lease agreements as lease revenue. During 2022, the City recognized \$2,941 of interest revenue and \$5,541 of lease revenue from the lease agreement.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. CAPITAL ASSETS

A summary of capital asset activity during the fiscal year follows:

| | Balance July 1, 2021 | Additions | Deductions | Balance June 30, 2022 |
|--------------------------------------|-------------------------|--------------------|------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not depreciated: | | | | |
| Land | \$ 254,843 | \$1,250,000 | \$ - | \$ 1,504,843 |
| Construction in progress | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total assets not depreciated | <u>254,843</u> | <u>1,250,000</u> | <u>-</u> | <u>1,504,843</u> |
| Capital assets that are depreciated: | | | | |
| Buildings and improvements | 2,202,750 | 201,882 | - | 2,404,632 |
| Vehicles | 1,342,662 | 283,966 | (180,864) | 1,445,764 |
| Equipment | 487,682 | 81,576 | - | 569,258 |
| Infrastructure assets | <u>211,662</u> | <u>-</u> | <u>-</u> | <u>211,662</u> |
| Total depreciable capital assets | <u>4,244,756</u> | <u>567,424</u> | <u>(180,864)</u> | <u>4,631,316</u> |
| Total capital assets | <u>4,499,599</u> | <u>1,817,424</u> | <u>(180,864)</u> | <u>6,136,159</u> |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 1,006,308 | 62,368 | - | 1,068,676 |
| Vehicles | 996,085 | 156,395 | (180,864) | 971,616 |
| Equipment | 322,931 | 39,858 | - | 362,789 |
| Infrastructure assets | <u>4,842</u> | <u>5,291</u> | <u>-</u> | <u>10,133</u> |
| Totals | <u>2,330,166</u> | <u>263,912</u> | <u>(180,864)</u> | <u>2,413,214</u> |
| Capital assets, net | <u>\$ 2,169,433</u> | <u>\$1,553,512</u> | <u>\$ -</u> | <u>\$ 3,722,945</u> |
| Business-type activities | | | | |
| Capital assets: | | | | |
| Land | \$ 189,999 | \$ - | \$ - | \$ 189,999 |
| Construction in progress | - | 546,209 | - | 546,209 |
| Water and sewer system | 16,706,508 | 11,150 | - | 16,717,658 |
| Buildings | 1,376,557 | - | - | 1,376,557 |
| Vehicle and equipment | <u>1,192,176</u> | <u>71,714</u> | <u>(82,300)</u> | <u>1,181,590</u> |
| Totals | 19,465,240 | 629,073 | (82,300) | 20,012,013 |
| Less accumulated depreciation | <u>10,926,137</u> | <u>522,790</u> | <u>(82,300)</u> | <u>11,366,627</u> |
| Capital assets, net | <u>\$ 8,539,103</u> | <u>\$ 106,283</u> | <u>\$ -</u> | <u>\$ 8,645,386</u> |

Depreciation expense was charged to the Governmental functions as follows:

| | |
|----------------------------|-------------------|
| General government | \$ 64,622 |
| Police and ABC | 116,507 |
| Fire | 34,589 |
| Highways and streets | <u>48,194</u> |
| Total depreciation expense | <u>\$ 263,912</u> |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

Direct Placement - Notes Payable

In a previous year, the City entered into a promissory note agreement with a local bank for the purchase of a fire truck. The note bears interest at 3.00% and is scheduled to mature in 2025. At June 30, 2022, the principal balance of the note was \$56,294.

On March 4, 2020, the City entered into a promissory note agreement with a local bank to finance construction of a new police building. The note bears interest at 3.00% and is scheduled to mature in March 2040. Construction began in fiscal year 2020 and was completed in fiscal year 2021 with the amount borrowed totaling \$490,265. Principal payments began in April 2021. At June 30, 2022, the principal balance of the note was \$465,038.

On December 16, 2020, the City entered into a promissory note agreement with a local bank to finance the purchase of land. The note bears interest at 2.28% and is scheduled to mature in December 2030. At June 30, 2022, the principal balance of the note was \$96,422.

On July 28, 2022, the City entered into a promissory note agreement with a local bank to finance the purchase of land. The note bears interest at 2.75% and is scheduled to mature in July 2042. At June 30, 2022, the principal balance of the note was \$1,426,083.

The future payments on the promissory notes are summarized as follows:

| | Principal | Interest | Total |
|-----------|---------------------|-------------------|---------------------|
| 2023 | \$ 101,739 | \$ 53,309 | \$ 155,048 |
| 2024 | 108,038 | 53,800 | 161,838 |
| 2025 | 113,792 | 50,432 | 164,224 |
| 2026 | 95,648 | 47,374 | 143,022 |
| 2027 | 98,304 | 44,719 | 143,023 |
| 2028-2032 | 486,679 | 181,159 | 667,838 |
| 2033-2037 | 526,625 | 110,103 | 636,728 |
| 2038-2043 | <u>513,012</u> | <u>34,382</u> | <u>547,394</u> |
| | <u>\$ 2,043,837</u> | <u>\$ 575,278</u> | <u>\$ 2,619,115</u> |

A summary of changes in governmental long-term debt follows:

| | July 1, 2021 | Additions | Retirements | June 30, 2022 |
|--------------------------------|---------------------|--------------------|----------------------|----------------------|
| Fire Truck Notes Payable | \$ 72,566 | \$ - | \$ (16,272) | \$ 56,294 |
| Police Building Notes Payable | 485,318 | - | (20,280) | 465,038 |
| Murrall Property Notes Payable | 133,780 | - | (37,358) | 96,422 |
| SK Lane Notes Payable | - | 1,426,083 | - | 1,426,083 |
| Net Pension Liability | 3,791,959 | - | (886,574) | 2,905,385 |
| Net OPEB Liability | <u>1,173,579</u> | <u>-</u> | <u>(295,234)</u> | <u>878,345</u> |
| Total | <u>\$ 5,657,202</u> | <u>\$1,426,083</u> | <u>\$(1,255,718)</u> | <u>\$ 5,827,567</u> |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

7. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

Revenue Bonds and Notes Payable

On September 25, 2019, the City issued Revenue Bonds, Series 2019B totaling \$1,770,000 to advance refund previously issued bonds. The Series 2019B bonds bear interest at 3% with a maturity date of February 1, 2037. At June 30, 2022, the principal balance of the bonds was \$ 1,466,251.

In a previous year, the City entered into a promissory note agreement with the Kentucky Infrastructure Authority to finance a manhole project. The note bears interest at 1.00% and is scheduled to mature in 2034. At June 30, 2022, the principal balance of the note was \$419,428.

In 2022, the City entered into a promissory note agreement with the Kentucky Infrastructure Authority to finance a sewer rehab project. The note bears interest at .25% and is scheduled to mature in 2043. At June 30, 2022, the principal balance of the note was \$450,625. As of June 30, 2022, the sewer rehab project was still in process and the City was still drawing on the note to pay for construction costs. As a result, the City is reporting the entire balance of the note has a noncurrent liability.

The annual debt service requirements to maturity, including principal and interest for bonds and notes payable as of June 30, 2022, are as follows:

| Fiscal Year | Principal | Interest | Fees | Total |
|-------------------------|---------------------|-------------------|------------------|---------------------|
| 2023 | \$ 138,746 | \$ 35,821 | \$ 4,939 | \$ 179,506 |
| 2024 | 141,981 | 33,362 | 4,608 | 179,951 |
| 2025 | 142,302 | 30,841 | 4,269 | 177,412 |
| 2026 | 138,458 | 28,318 | 3,928 | 170,704 |
| 2027 | 132,952 | 25,874 | 3,598 | 162,424 |
| 2028-2032 | 698,952 | 93,241 | 13,137 | 805,330 |
| 2033-2036 | <u>492,288</u> | <u>25,874</u> | <u>4,746</u> | <u>522,908</u> |
| | 1,885,679 | <u>\$ 273,331</u> | <u>\$ 39,225</u> | <u>\$ 2,198,235</u> |
| KIA Sewer Rehab Loan | <u>450,625</u> | | | |
| | <u>\$ 2,336,304</u> | | | |

A summary of changes in business-type activities long-term debt follows:

| | July 1, 2021 | Additions | Retirements | June 30, 2022 |
|----------------------------------|---------------------|-------------------|---------------------|----------------------|
| Direct Placement - Revenue Bonds | \$ 1,571,251 | \$ - | \$ (105,000) | \$ 1,466,251 |
| Bond premium | 6,893 | - | (473) | 6,420 |
| Notes payable | 450,778 | 450,625 | (31,350) | 870,053 |
| Net Pension Liability | 1,144,525 | - | (11,508) | 1,133,017 |
| Net OPEB Liability | <u>360,239</u> | <u>-</u> | <u>(20,085)</u> | <u>340,154</u> |
| Total Debt | <u>\$ 3,533,686</u> | <u>\$ 450,625</u> | <u>\$ (168,416)</u> | <u>\$ 3,815,895</u> |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

7. BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

Revenue Bonds and Notes Payable, continued

Bond Ordinance Restrictions

The bond ordinances require that certain reserves be created and maintained as follows:

Debt Service reserve - This reserve is required to have 125% of the maximum annual principal and interest requirements.

Sinking Fund - This reserve is required to receive a monthly transfer of 1/6 of the next interest payment and 1/12th of the next principal payment.

As of June 30, 2022, the City set aside in separate accounts \$483,868 for the reserve requirements.

As of June 30, 2022, the City met all reserve requirements related to the bonds.

8. RETIREMENT PLAN

CERS

The City of Russell Springs is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pension Authority administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Public Pension Authority website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. 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. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2022, plan members were required to contribute 5% of wages for non-hazardous job classifications and 8% of wages for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium.

The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with the actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% of each employee's wages for non-hazardous job classifications and 44.33% of each employee's wages for hazardous job classifications. The contributions are allocated to both the pension and insurance trust. The insurance trust is more fully described in Note 9. Plan members contributed 22.78% and 35.60% to the pension trust for non-hazardous and hazardous job classifications, respectively. Administrative costs of Kentucky Public Pension Authority are financed through employer contributions and investment earnings.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account for non-hazardous job classifications and 8% of wages to their own account for hazardous classifications.

Plan members also contribute 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. Each member's account is credited with a 4% employer pay credit for non-hazardous members, and a 7.5% pay credit for hazardous members. The employer pay credit represents a portion of the employer contribution.

For the year ended June 30, 2022, the City contributed \$278,802 or 100% of the required contribution for non-hazardous job classifications, which was allocated \$235,663 to the CERS pension fund and \$43,139 to the CERS insurance fund. The City contributed \$183,630 or 100% of the required contribution for hazardous job classifications, which was allocated \$147,467 to the CERS pension fund and \$36,163 to the CERS insurance fund.

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

| | | |
|--------|----------------------|---|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years service or 65 years old and 4 years of service |
| | Reduced retirement | At least 5 years service and 55 years old or 25 years service and any age |
| Tier 2 | Participation date | September 1, 2008 - December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ |
| | Reduced retirement | At least 10 years service and 60 years old |
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 87+ |
| | Reduced retirement | Not available |

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum.

Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the City reported a liability for its proportionate share of the net pension liability as follows:

| Total Net | | |
|--------------------------|----------------------|---------------------|
| Pension Liability | Non-hazardous | Hazardous |
| <u>\$ 4,038,402</u> | <u>\$ 2,294,262</u> | <u>\$ 1,744,140</u> |

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, and rolled forward using generally accepted actuarial procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. The City's proportionate share at June 30, 2021 was as follows:

| Non-hazardous | Hazardous |
|----------------------|------------------|
| .036% | .066% |

The proportionate share at June 30, 2021, relative to June 30, 2020, increased for non-hazardous by .003% and decreased for hazardous by .013%.

For the year ended June 30, 2022, the City recognized pension expense of \$429,172. At June 30, 2022, 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 |
|---|---|--|
| Differences between expected and actual results | \$ 74,443 | \$ 22,267 |
| Changes of assumptions | 52,577 | - |
| Net difference between projected and actual earnings on Plan investments | - | 493,024 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 173,187 | 346,408 |
| City contributions subsequent to the measurement date | <u>383,130</u> | <u>-</u> |
| Total | <u>\$ 683,337</u> | <u>\$ 861,699</u> |

The \$383,130 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, 2023. 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, | |
|-----------------------------|--------------|
| 2023 | \$ (48,945) |
| 2024 | \$ (137,949) |
| 2025 | \$ (189,464) |
| 2026 | \$ (185,134) |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions – The total pension liability reported at June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.55 to 19.05%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021. The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|------------------------------|---|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non-US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Special credit/high yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | 5.00% |
| Long term inflation assumption | | <u>2.30%</u> |
| Expected nominal return for portfolio | | 7.30% |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

8. RETIREMENT PLAN (CONTINUED)

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 closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate 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:

| | Non-hazardous | | Hazardous | |
|-----------------------|---------------|---|---------------|---|
| | Discount rate | City's proportionate share of net pension liability | Discount rate | City's proportionate share of net pension liability |
| 1% decrease | 5.25% | \$ 2,942,500 | 5.25% | \$ 2,223,149 |
| Current discount rate | 6.25% | \$ 2,294,262 | 6.25% | \$ 1,744,140 |
| 1% increase | 7.25% | \$ 1,757,861 | 7.25% | \$ 1,353,750 |

Payable to the Pension Plan – At June 30, 2022, the City reported a payable of \$42,740 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2022.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the City of Russell Springs participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2022, the employer's contribution was 4.17% to the insurance trust for non-hazardous job classifications and 8.73% to the insurance trust for hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pension Authority are financed through employer contributions and investment earnings.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2022, the City contributed \$43,139 or 100% of the required contribution for non-hazardous job classifications, and \$36,163, or 100% of the required contribution for hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

| | | |
|--------|--|---|
| Tier 1 | Participation date Insurance eligibility Benefit | Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement |
| Tier 1 | Participation date Insurance eligibility Benefit | Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually |
| Tier 2 | Participation date Insurance eligibility Benefit | After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |
| Tier 3 | Participation date Insurance eligibility Benefit | After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2022, the City reported a liability for its proportionate share of the net OPEB liability as follows:

| Total Net | | |
|-----------------------|----------------------|-------------------|
| OPEB Liability | Non-hazardous | Hazardous |
| <u>\$ 1,218,499</u> | <u>\$ 688,763</u> | <u>\$ 529,736</u> |

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined.

The City's proportionate share at June 30, 2021 was as follows:

| Non-hazardous | Hazardous |
|----------------------|------------------|
| .036% | .066% |

The proportionate share at June 30, 2021, relative to June 30, 2020, increased for non-hazardous by .003% and decreased for hazardous by .013%.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

For the year ended June 30, 2022, the City recognized OPEB expense of \$149,697. At June 30, 2022, 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 |
|---|---|--|
| Differences between expected and actual results | \$ 124,858 | \$ 262,627 |
| Changes of assumptions | 315,445 | 838 |
| Net difference between projected and actual earnings on Plan investments | - | 207,451 |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 74,575 | 117,303 |
| City contributions subsequent to the measurement date | <u>105,737</u> | <u>-</u> |
| Total | <u>\$ 620,615</u> | <u>\$ 588,219</u> |

The \$105,737 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 OPEB liability in the year ending June 30, 2023. This includes adjustments of \$22,662 for the nonhazardous implicit subsidy and \$3,773 for the hazardous implicit subsidy, which are required to be recognized as deferred outflows of resources.

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,

| | |
|------|-------------|
| 2023 | \$ 5,888 |
| 2024 | \$ (2,124) |
| 2025 | \$ (6,453) |
| 2026 | \$ (65,017) |
| 2027 | \$ (5,635) |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Actuarial Assumptions – The total OPEB liability in the June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30 to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |
| Healthcare trend | |
| Pre – 65: | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Post – 65: | Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years |

Hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.55 to 19.05%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |
| Healthcare trend | |
| Pre – 65: | Initial trend starting at 6.30% at January 1, 2023, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |
| Post – 65: | Initial trend starting at 6.30% at January 1, 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years |

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2019. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

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

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|---|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non-US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Special credit/high yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | 5.00% |
| Long term inflation assumption | | 2.30% |
| Expected nominal return for portfolio | | 7.30% |

Discount Rate – The discount rate used to measure the total OPEB liability was 5.20% and 5.05% for non-hazardous and hazardous classifications, respectively. 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 24-year 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 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". 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.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net OPEB liability calculated using the discount rate as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| Non-hazardous | | | Hazardous | | |
|-----------------------|----------------------|---|------------------|----------------------|---|
| | Discount rate | City's proportionate share of net OPEB liability | | Discount rate | City's proportionate share of net OPEB liability |
| 1% decrease | 4.20% | \$ 945,638 | | 4.05% | \$ 768,016 |
| Current discount rate | 5.20% | \$ 688,763 | | 5.05% | \$ 529,736 |
| 1% increase | 6.20% | \$ 477,917 | | 6.05% | \$ 338,291 |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the City's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | Non-hazardous | Hazardous |
|--------------------|---|---|
| | City's proportionate share of net OPEB liability | City's proportionate share of net OPEB liability |
| 1% decrease | \$ 495,813 | \$ 347,112 |
| Current trend rate | \$ 688,763 | \$ 529,736 |
| 1% increase | \$ 921,612 | \$ 753,407 |

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report.

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 |

11. 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, employee injury, fiduciary responsibility, etc. Each of these risks areas is covered through the purchase of commercial insurance. The City has purchased certain policies which are retrospectively rated which include worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of June 30, 2022 are as follows:

| | Interfund Receivables | Interfund Payables |
|----------------------|--------------------------|-----------------------|
| General Fund | \$ 135,204 | \$ - |
| Water and Sewer Fund | - | 119,613 |
| Senior Citizens Fund | - | 15,591 |
| Totals | <u>\$ 135,204</u> | <u>\$ 135,204</u> |

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

13. RESTATEMENT OF NET POSITION

The beginning net position of the Water & Sewer Fund and the Business-type Activities has been restated to account for a commercial sewer customer that was overbilled the last several years. The effect of this restatement on net position is as follows:

Water & Sewer Fund

| | |
|--|---------------------|
| Net position, beginning of year | \$ 5,816,458 |
| Customer overpayment | <u>(59,214)</u> |
| Net position, beginning of year, as restated | <u>\$ 5,757,244</u> |

Business-type Activities

| | |
|--|---------------------|
| Net position, beginning of year | \$ 6,681,880 |
| Customer overpayment | <u>(59,214)</u> |
| Net position, beginning of year, as restated | <u>\$ 6,622,666</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY BUDGETARY COMPARISON
MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2022

| | GENERAL FUND | | | |
|---|----------------------------|---------------------------|------------------|-------------------|
| | Original Budget | Amended Budget | Actual | Variance |
| REVENUES | | | | |
| Taxes | \$ 402,500 | \$ 402,500 | \$ 412,384 | \$ 9,884 |
| Licenses and permits | 2,360,600 | 2,360,600 | 2,649,045 | 288,445 |
| Intergovernmental | 537,900 | 537,900 | 164,941 | (372,959) |
| Fines and forfeitures | 3,000 | 3,000 | 6,130 | 3,130 |
| Other revenues | 210,150 | 213,188 | 172,929 | (40,259) |
| Total Revenues | <u>3,514,150</u> | <u>3,517,188</u> | <u>3,405,429</u> | <u>(111,759)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,408,780 | 1,408,780 | 1,079,423 | (329,357) |
| Police and ABC | 1,547,528 | 1,426,396 | 1,116,302 | (310,094) |
| Fire | 200,200 | 200,200 | 130,311 | (69,889) |
| Culture and Recreation | 627,750 | 627,750 | 517,995 | (109,755) |
| Highways and streets | 283,300 | 283,300 | 134,390 | (148,910) |
| Cemetery | 25,000 | 25,000 | 3,244 | (21,756) |
| Capital outlay | 465,346 | 330,432 | 1,817,424 | 1,486,992 |
| Debt service | 78,300 | 78,300 | 113,419 | 35,119 |
| Total Expenditures | <u>4,636,204</u> | <u>4,380,158</u> | <u>4,912,508</u> | <u>532,350</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loan proceeds | - | - | 1,426,083 | 1,426,083 |
| Proceeds from sale of assets | 100,000 | 100,000 | 103,229 | 3,229 |
| Total Other Financing Sources (Uses) | <u>100,000</u> | <u>100,000</u> | <u>1,529,312</u> | <u>1,429,312</u> |
| Net Change In Fund Balance (Note 1) | <u>\$ (1,022,054)</u> | <u>\$ (762,970)</u> | <u>\$ 22,233</u> | <u>\$ 785,203</u> |

| | MUNICIPAL ROAD AID | | | |
|---|----------------------------|---------------------------|-----------------|-----------------|
| | Original Budget | Amended Budget | Actual | Variance |
| REVENUES | | | | |
| Intergovernmental | \$ 49,500 | \$ 49,500 | \$ 48,667 | \$ (833) |
| Total Revenues | <u>49,500</u> | <u>49,500</u> | <u>48,667</u> | <u>(833)</u> |
| EXPENDITURES | | | | |
| Capital outlay | 96,281 | 43,943 | 41,110 | (2,833) |
| Total Expenditures | <u>96,281</u> | <u>43,943</u> | <u>41,110</u> | <u>(2,833)</u> |
| Excess (Deficiency) of Revenues over Expenditures (Note 1) | <u>\$ (46,781)</u> | <u>\$ 5,557</u> | <u>\$ 7,557</u> | <u>\$ 2,000</u> |

| | DRUG FORFEITURE | | | |
|---|----------------------------|---------------------------|-------------------|-----------------|
| | Original Budget | Amended Budget | Actual | Variance |
| REVENUES | | | | |
| Other revenues | \$ 15,000 | \$ 15,000 | \$ - | \$ (15,000) |
| Total Revenues | <u>15,000</u> | <u>15,000</u> | <u>-</u> | <u>(15,000)</u> |
| EXPENDITURES | | | | |
| Police and ABC | 32,776 | 18,522 | 2,224 | (16,298) |
| Total Expenditures | <u>32,776</u> | <u>18,522</u> | <u>2,224</u> | <u>(16,298)</u> |
| Excess (Deficiency) of Revenues over Expenditures (Note 1) | <u>\$ (17,776)</u> | <u>\$ (3,522)</u> | <u>\$ (2,224)</u> | <u>\$ 1,298</u> |

Note 1: In order to balance the budget, the City included in its budget ordinance funds carried forward from previous years. The funds carried forward from previous years are not presented above.

CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - NONHAZARDOUS
Last Seven Years

| Reporting Fiscal Year (Measurement Date) | 2016 (2015) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| City's proportion of the net pension liability | 0.029% | 0.028% | 0.029% | 0.030% | 0.032% | 0.033% | 0.036% |
| City's proportionate share of the net pension liability (asset) | \$ 1,246,916 | \$ 1,395,161 | \$ 1,718,999 | \$ 1,834,948 | \$ 2,267,524 | \$ 2,550,632 | \$ 2,294,262 |
| City's covered employee payroll | \$ 634,516 | \$ 678,576 | \$ 714,607 | \$ 714,607 | \$ 814,786 | \$ 863,623 | \$ 917,899 |
| City's share of the net pension liability (asset) as a percentage of its covered employee payroll | 196.51% | 205.60% | 240.55% | 256.78% | 278.30% | 295.34% | 249.95% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.97% | 55.50% | 53.32% | 53.54% | 50.45% | 47.81% | 57.33% |

The above schedule will present 10 years of historical data, once available.

**CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HAZARDOUS
Last Seven Years**

| Reporting Fiscal Year (Measurement Date) | 2016 (2015) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| City's proportion of the net pension liability | 0.066% | 0.076% | 0.078% | 0.085% | 0.084% | 0.079% | 0.066% |
| City's proportionate share of the net pension liability (asset) | \$ 1,018,235 | \$ 1,308,471 | \$ 1,744,585 | \$ 2,045,168 | \$ 2,321,046 | \$ 2,385,852 | \$ 1,744,140 |
| City's covered employee payroll | \$ 353,949 | \$ 394,788 | \$ 428,358 | \$ 428,358 | \$ 476,625 | \$ 455,148 | \$ 388,147 |
| City's share of the net pension liability (asset) as a percentage of its covered employee payroll | 287.68% | 331.44% | 407.27% | 477.44% | 486.98% | 524.19% | 449.35% |
| Plan fiduciary net position as a percentage of the total pension liability | 57.52% | 53.95% | 49.78% | 49.26% | 46.63% | 41.11% | 52.26% |

The above schedule will present 10 years of historical data, once available.

CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - NONHAZARDOUS
Last Eight Fiscal Years

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 80,901 | \$ 84,279 | \$ 99,688 | \$ 103,475 | \$ 132,156 | \$ 164,402 | \$ 177,155 | \$ 235,663 |
| Contributions relative to contractually required employer contribution | <u>80,901</u> | <u>84,279</u> | <u>99,688</u> | <u>103,475</u> | <u>132,156</u> | <u>164,402</u> | <u>177,155</u> | <u>235,663</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered employee payroll | \$ 634,516 | \$ 678,576 | \$ 714,607 | \$ 714,607 | \$ 814,786 | \$ 863,623 | \$ 917,899 | \$ 1,034,515 |
| Employer contributions as a percentage of covered-employee payroll | 12.75% | 12.42% | 13.95% | 14.48% | 16.22% | 19.04% | 19.30% | 22.78% |

The above schedule will present 10 years of historical data, once available.

**CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF CONTRIBUTIONS - HAZARDOUS
Last Eight Fiscal Years**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 73,374 | \$ 79,984 | \$ 92,977 | \$ 95,095 | \$ 118,489 | \$ 138,974 | \$ 116,677 | \$ 147,467 |
| Contributions relative to contractually required employer contribution | <u>73,374</u> | <u>79,984</u> | <u>92,977</u> | <u>95,095</u> | <u>118,489</u> | <u>138,974</u> | <u>116,677</u> | <u>147,467</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered employee payroll | \$ 353,949 | \$ 394,788 | \$ 428,358 | \$ 428,358 | \$ 476,625 | \$ 455,148 | \$ 388,147 | \$ 414,235 |
| Employer contributions as a percentage of covered-employee payroll | 20.73% | 20.26% | 21.71% | 22.20% | 24.86% | 30.53% | 30.06% | 35.60% |

The above schedule will present 10 years of historical data, once available.

CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - NONHAZARDOUS
Last Six Years

| Reporting Fiscal Year (Measurement Date) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| City's proportion of the net OPEB liability | 0.029% | 0.029% | 0.030% | 0.032% | 0.033% | 0.036% |
| City's proportionate share of the net OPEB liability (asset) | \$ 463,090 | \$ 590,397 | \$ 534,934 | \$ 542,145 | \$ 802,786 | \$ 688,763 |
| City's covered employee payroll | \$ 678,576 | \$ 714,607 | \$ 714,607 | \$ 814,786 | \$ 863,623 | \$ 917,899 |
| City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 68.24% | 82.62% | 74.86% | 66.54% | 92.96% | 75.04% |
| Plan fiduciary net position as a percentage of the total OPEB liability | unavailable | 52.39% | 57.62% | 60.44% | 51.67% | 62.91% |

The above schedule will present 10 years of historical data, once available.

**CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - HAZARDOUS
Last Six Years**

| Reporting Fiscal Year (Measurement Date) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| City's proportion of the net OPEB liability | 0.031% | 0.078% | 0.085% | 0.084% | 0.079% | 0.066% |
| City's proportionate share of the net OPEB liability (asset) | \$ 385,185 | \$ 644,622 | \$ 602,950 | \$ 621,575 | \$ 731,032 | \$ 529,736 |
| City's covered employee payroll | \$ 394,788 | \$ 428,358 | \$ 428,358 | \$ 476,625 | \$ 455,148 | \$ 388,147 |
| City's share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 97.57% | 150.49% | 140.76% | 130.41% | 160.61% | 136.48% |
| Plan fiduciary net position as a percentage of the total OPEB liability | unavailable | 58.99% | 64.24% | 64.44% | 58.84% | 66.81% |

The above schedule will present 10 years of historical data, once available.

**CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - NONHAZARDOUS
Last Eight Fiscal Years**

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required employer contribution | \$ 31,218 | \$ 31,486 | \$ 33,801 | \$ 33,587 | \$ 42,858 | \$ 40,547 | \$ 43,692 | \$ 43,139 |
| Contributions relative to contractually required employer contribution | <u>31,218</u> | <u>31,486</u> | <u>33,801</u> | <u>33,587</u> | <u>42,858</u> | <u>40,547</u> | <u>43,692</u> | <u>43,139</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered employee payroll | \$ 634,516 | \$ 678,576 | \$ 714,607 | \$ 714,607 | \$ 814,786 | \$ 863,623 | \$ 917,899 | \$ 1,034,515 |
| Employer contributions as a percentage of covered-employee payroll | 4.92% | 4.64% | 4.73% | 4.70% | 5.26% | 4.69% | 4.76% | 4.17% |

The above schedule will present 10 years of historical data, once available.

CITY OF RUSSELL SPRINGS, KENTUCKY
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - HAZARDOUS
Last Eight Fiscal Years

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Contractually required employer contribution | \$ 48,066 | \$ 50,099 | \$ 40,051 | \$ 45,038 | \$ 49,903 | \$ 44,013 | \$ 36,952 | \$ 36,163 |
| Contributions relative to contractually required employer contribution | <u>48,066</u> | <u>50,099</u> | <u>40,051</u> | <u>45,038</u> | <u>49,903</u> | <u>44,013</u> | <u>36,952</u> | <u>36,163</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| City's covered employee payroll | \$ 353,949 | \$ 394,788 | \$ 428,358 | \$ 428,358 | \$ 476,625 | \$ 455,148 | \$ 388,147 | \$ 414,235 |
| Employer contributions as a percentage of covered-employee payroll | 13.58% | 12.69% | 9.35% | 10.51% | 10.47% | 9.67% | 9.52% | 8.73% |

The above schedule will present 10 years of historical data, once available.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The City's covered payroll reported on the Proportionate Share of the Net Pension Liability and the Proportionate Share of the Net OPEB Liability Schedules is one year prior to the City's fiscal year payroll as reported on the Schedule of Contributions for Pension and OPEB.

2. CHANGES OF ASSUMPTIONS

June 30, 2021 – Pension and OPEB – Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for CERS pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.40% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.90% to 6.30%.

June 30, 2020 – Pension and OPEB – Hazardous and Nonhazardous

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%, which gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023 and then gradually decreases to an ultimate trend rate of 4.05% over a period of 14 years.

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for pension.

June 30, 2019 – Pension and OPEB – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both the pension and OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.30% to 10.30% on average.

June 30, 2018 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either pension or OPEB.

CITY OF RUSSELL SPRINGS, KENTUCKY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2017 – Pension – Hazardous and Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%

June 30, 2016 – Pension and OPEB – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either pension or OPEB.

June 30, 2015 – Pension – Hazardous and Nonhazardous

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2014 – Pension – Hazardous and Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – Pension – Hazardous and Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

SUPPLEMENTARY INFORMATION

CITY OF RUSSELL SPRINGS, KENTUCKY
SCHEDULE OF WATER AND SEWER ACTIVITIES
for the year ended June 30, 2022

| | <u>Water Services</u> | <u>Sewer Services</u> | <u>Sanitation Services</u> | <u>Total</u> |
|--------------------------------|---------------------------|---------------------------|--------------------------------|--------------------|
| OPERATING REVENUES | | | | |
| Charges for services | \$ 2,540,474 | \$ 846,776 | \$ 183,224 | \$ 3,570,474 |
| Penalties | 47,355 | - | - | 47,355 |
| Other revenue | <u>55,751</u> | <u>76,044</u> | <u>-</u> | <u>131,795</u> |
| Total operating revenues | <u>2,643,580</u> | <u>922,820</u> | <u>183,224</u> | <u>3,749,624</u> |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 364,942 | 128,336 | - | 493,278 |
| Payroll taxes | 26,729 | 9,920 | - | 36,649 |
| Motor fuels | 30,342 | 9,791 | - | 40,133 |
| Depreciation and amortization | 262,283 | 210,167 | - | 472,450 |
| Maintenace | 35,552 | 43,231 | - | 78,783 |
| Utilities | 42,137 | 59,009 | - | 101,146 |
| Chemicals | - | 5,924 | - | 5,924 |
| Employee benefits | 346,718 | 122,170 | - | 468,888 |
| Insurance | 60,956 | - | - | 60,956 |
| Supplies | 196,875 | 181,983 | - | 378,858 |
| Office supplies | 2,960 | - | - | 2,960 |
| Professional fees | 13,636 | 5,278 | - | 18,914 |
| Advertising and printing | 191 | 252 | - | 443 |
| Lab analysis | 5,240 | - | - | 5,240 |
| Water purchases | 811,366 | - | - | 811,366 |
| Surcharge - Sewer and Garbage | - | 574,084 | 141,046 | 715,130 |
| Uniform allowance | 9,200 | 2,907 | - | 12,107 |
| Dues and subscriptions | 4,362 | - | - | 4,362 |
| Contractual services | 14,605 | 16,110 | - | 30,715 |
| Travel and lodging | 1,308 | - | - | 1,308 |
| Water meters | 8,070 | - | - | 8,070 |
| Miscellaneous | 33,772 | 27,451 | - | 61,223 |
| Communications and postage | <u>33,826</u> | <u>552</u> | <u>-</u> | <u>34,378</u> |
| Total operating expenses | <u>2,305,070</u> | <u>1,397,165</u> | <u>141,046</u> | <u>3,843,281</u> |
| Operating income (loss) | <u>\$ 338,510</u> | <u>\$ (474,345)</u> | <u>\$ 42,178</u> | <u>\$ (93,657)</u> |



Members American Institute of Certified Public Accountants
and Kentucky Society of Certified Public Accountants

**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 the City Council
City of Russell Springs, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Russell Springs, Kentucky, as of and for the year ended June 30, 2022, which collectively comprise the City of Russell Springs, Kentucky's basic financial statements and have issued our report thereon dated July 23, 2024.

Report on 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 opinion 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

We noted certain other matters that we reported to management of the City of Russell Springs, Kentucky in a separate letter dated July 23, 2024.

Purpose of this Report

This report is intended 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.

RFH

RFH, PLLC
Lexington, Kentucky
July 23, 2024

**CITY OF RUSSELL SPRINGS, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2022**

PRIOR AUDIT FINDINGS

2021-001 – The City’s accounting functions are not properly segregated to provide optimal internal control. (Resolved)