

**CITY OF JACKSON, KENTUCKY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2012**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**Kelley,  
Galloway &  
Company, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the forgoing table of contents. These financial statements are the responsibility of the City of Jackson, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, on our consideration of the City of Jackson, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented a Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jackson's financial statements as a whole. The accompanying schedule of expenditures of federal awards contained on page 24 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kelley, Dalloway & Company, PSC

December 17, 2012

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 310,855	\$ 113,343	\$ 424,198
Accounts receivable	30,563	246,351	276,914
Taxes receivable	3,190	-	3,190
Grants receivable	-	119,365	119,365
Due from (to) other funds	515,406	(515,406)	-
Restricted assets -			
Cash and cash equivalents	50	121,766	121,816
Investments-debt reserve - KADD	501,070	-	501,070
Nondepreciable capital assets	329,000	1,525,766	1,854,766
Depreciable capital assets	7,646,338	23,593,625	31,239,963
Accumulated depreciation	(4,195,695)	(9,183,341)	(13,379,036)
<b>Total assets</b>	<b>5,140,777</b>	<b>16,021,469</b>	<b>21,162,246</b>
<b>LIABILITIES</b>			
Accounts payable	29,626	48,280	77,906
Contracts payable	-	129,034	129,034
Other accrued liabilities	53,086	38,757	91,843
Current portion of long-term debt	424,423	235,946	660,369
Accrued interest payable	-	83,309	83,309
Customer deposits	-	153,260	153,260
Long-term debt, net of current portion	4,452,460	5,462,865	9,915,325
<b>Total liabilities</b>	<b>4,959,595</b>	<b>6,151,451</b>	<b>11,111,046</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(939,950)	10,237,239	9,641,069
Restricted	501,120	121,766	121,816
Unrestricted	620,012	(488,987)	288,315
<b>Total net assets</b>	<b>\$ 181,182</b>	<b>\$ 9,870,018</b>	<b>\$ 10,051,200</b>

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

CITY OF JACKSON, KENTUCKY  
STATEMENT OF ACTIVITIES  
JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 1,091,785	\$ -	\$ 481,927	\$ -	\$ (609,858)	\$ -	\$ (609,858)
Police	539,729	4,893	-	-	(534,836)	-	(534,836)
Fire	403,612	-	-	-	(403,612)	-	(403,612)
Streets	286,867	-	189,099	-	(97,768)	-	(97,768)
Sanitation	298,748	380,125	-	-	81,377	-	81,377
Parks	485,273	41,491	-	-	(443,782)	-	(443,782)
Social service	20,400	-	-	-	(20,400)	-	(20,400)
Infrastructure depreciation	11,041	-	-	-	(11,041)	-	(11,041)
Debt service	667,837	-	-	-	(667,837)	-	(667,837)
Total governmental activities	3,805,292	426,509	671,026	-	(2,707,757)	-	(2,707,757)
<b>Business-Type Activities</b>							
Water	1,524,323	1,159,020	-	1,025,933	-	660,630	660,630
Sewer	704,233	652,371	-	500	-	(51,362)	(51,362)
Total business-type activities	2,228,556	1,811,391	-	1,026,433	-	609,268	609,268
Total primary government	\$ 6,033,848	\$ 2,237,900	\$ 671,026	\$ 1,026,433	\$ (2,707,757)	\$ 609,268	\$ (2,098,489)
<b>General Revenues:</b>							
Property and other local taxes					\$ 318,491	\$ -	\$ 318,491
Occupational license fees					1,601,498	-	1,601,498
Insurance premiums					319,481	-	319,481
Tourism tax					497,405	-	497,405
Coal/mineral severance & LGEA					61,641	-	61,641
Interest income					978	630	1,608
Other income					10,703	-	10,703
Total general revenues					2,810,197	630	2,810,827
Change in net assets					102,440	609,898	712,338
Net assets, June 30, 2011					78,742	9,260,120	9,338,862
Net assets, June 30, 2012					\$ 181,182	\$ 9,870,018	\$ 10,051,200

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

**CITY OF JACKSON, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	General	Total Governmental Funds
<b>Assets</b>		
Cash	\$ 310,855	\$ 310,855
Fee receivable	30,563	30,563
Taxes receivable	3,190	3,190
Restricted assets-cash	50	50
Investments-debt service	501,070	501,070
Due from other funds	515,406	515,406
 Total assets	 \$ 1,361,134	 \$ 1,361,134
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 29,626	\$ 29,626
Accrued expenses	53,086	53,086
 Total liabilities	 82,712	 82,712
 <b>Fund Balances:</b>		
Reserved for debt service	501,120	501,120
Unreserved	777,302	777,302
 Total fund balances	 1,278,422	 1,278,422
 Total liabilities and fund balances	 \$ 1,361,134	 \$ 1,361,134

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

**CITY OF JACKSON, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET ASSETS**  
**JUNE 30, 2012**

Total fund balance - total governmental funds	\$ 1,278,422
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$7,975,338, net of accumulated depreciation of \$4,195,695 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,779,643
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(4,876,883)</u>
Net assets - Governmental Activities	<u>\$ 181,182</u>

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

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	General	Total Governmental Funds
<b>Revenues</b>		
Property taxes	\$ 240,038	\$ 240,038
Delinquent property taxes	21,824	21,824
Franchise taxes	56,629	56,629
Occupational license fees	1,601,498	1,601,498
Arrest fees, fines and forfeitures	4,893	4,893
Garbage collections	380,125	380,125
Tourism tax	497,405	497,405
Insurance premiums	319,481	319,481
Parks and recreation	41,491	41,491
Grant income	481,927	481,927
Coal/mineral severance & LGEA	61,641	61,641
Municipal road aid	189,099	189,099
Interest income	978	978
Other income	10,703	10,703
Total revenues	<u>3,907,732</u>	<u>3,907,732</u>
<b>Expenditures</b>		
General government	1,056,606	1,056,606
Police	533,477	533,477
Fire	291,621	291,621
Streets	265,743	265,743
Sanitation	270,024	270,024
Parks	308,033	308,033
Social service	20,400	20,400
Capital outlay	-	-
Debt service	1,081,728	1,081,728
Total expenditures	<u>3,827,632</u>	<u>3,827,632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>80,100</u>	<u>80,100</u>
<b>Other financing sources (uses):</b>		
Proceeds from debt	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balances	80,100	80,100
Fund balance, beginning of year	<u>1,198,322</u>	<u>1,198,322</u>
Fund balance, end of year	<u>\$ 1,278,422</u>	<u>\$ 1,278,422</u>

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

**CITY OF JACKSON, KENTUCKY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds	\$ 80,100
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(391,551)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>413,891</u>
Change in net assets of governmental activities	<u>\$ 102,440</u>

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

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2012**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 109,101	\$ 4,242	\$ 113,343
Accounts receivable - utilities	157,274	89,077	246,351
Grants receivable	119,365	-	119,365
Total current assets	<u>385,740</u>	<u>93,319</u>	<u>479,059</u>
Restricted Assets:			
Cash and cash equivalents	121,632	134	121,766
Total restricted assets	<u>121,632</u>	<u>134</u>	<u>121,766</u>
Capital Assets:			
Property, plant and equipment	17,241,739	7,877,652	25,119,391
Less: Accumulated depreciation	(5,564,551)	(3,618,790)	(9,183,341)
Total capital assets - net	<u>11,677,188</u>	<u>4,258,862</u>	<u>15,936,050</u>
Total assets	<u>\$ 12,184,560</u>	<u>\$ 4,352,315</u>	<u>\$ 16,536,875</u>
<b>LIABILITIES</b>			
Current liabilities (payable from current assets):			
Accounts payable	\$ 29,283	\$ 18,997	\$ 48,280
Contracts payable	129,034	-	129,034
Due to other funds	462,355	53,051	515,406
Accrued liabilities	24,553	14,204	38,757
Accrued interest payable	70,378	12,931	83,309
Current portion of debt	<u>139,430</u>	<u>96,516</u>	<u>235,946</u>
Total current liabilities (payable from current assets)	<u>855,033</u>	<u>195,699</u>	<u>1,050,732</u>
Current liabilities (payable from restricted assets):			
Customer deposits	153,260	-	153,260
Total current liabilities (payable from restricted assets)	<u>153,260</u>	<u>-</u>	<u>153,260</u>
Long-term debt, net of current portion	<u>3,929,569</u>	<u>1,533,296</u>	<u>5,462,865</u>
Total liabilities	<u>4,937,862</u>	<u>1,728,995</u>	<u>6,666,857</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,608,189	2,629,050	10,237,239
Restricted	121,632	134	121,766
Unrestricted	<u>(483,123)</u>	<u>(5,864)</u>	<u>(488,987)</u>
Total net assets	<u>\$ 7,246,698</u>	<u>\$ 2,623,320</u>	<u>\$ 9,870,018</u>

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

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>OPERATING REVENUES</b>			
Water sales	\$ 1,133,489	\$ -	\$ 1,133,489
Sewer service	-	639,967	639,967
Miscellaneous	25,531	12,404	37,935
Total operating revenues	<u>1,159,020</u>	<u>652,371</u>	<u>1,811,391</u>
<b>OPERATING EXPENSES</b>			
Salaries	266,411	189,810	456,221
Depreciation	427,613	176,702	604,315
Taxes and retirement	70,882	48,331	119,213
Utilities	122,930	66,713	189,643
Supplies	232,946	30,953	263,899
Insurance	113,255	87,132	200,387
Contract labor	45,021	20,686	65,707
Sludge hauling	-	1,842	1,842
Miscellaneous	49,335	12,141	61,476
Total operating expenses	<u>1,328,393</u>	<u>634,310</u>	<u>1,962,703</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(169,373)</u>	<u>18,061</u>	<u>(151,312)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	575	55	630
Grant income	1,023,878	-	1,023,878
Interest expense	(195,930)	(69,923)	(265,853)
Total non-operating revenues (expenses)	<u>828,523</u>	<u>(69,868)</u>	<u>758,655</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>659,150</u>	<u>(51,807)</u>	<u>607,343</u>
<b>CAPITAL CONTRIBUTIONS (TAPS)</b>	<u>2,055</u>	<u>500</u>	<u>2,555</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>661,205</u>	<u>(51,307)</u>	<u>609,898</u>
<b>NET ASSETS, JUNE 30, 2011</b>	<u>6,585,493</u>	<u>2,674,627</u>	<u>9,260,120</u>
<b>NET ASSETS, JUNE 30, 2012</b>	<u>\$ 7,246,698</u>	<u>\$ 2,623,320</u>	<u>\$ 9,870,018</u>

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

**CITY OF JACKSON, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,125,862	\$ 642,826	\$ 1,768,688
Cash payments to suppliers for goods and services	(441,496)	(244,948)	(686,444)
Cash payments to employees	(339,089)	(235,912)	(575,001)
Other operating revenues	25,531	12,404	37,935
Net cash provided by (used for) operating activities	<u>370,808</u>	<u>174,370</u>	<u>545,178</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Grant income	904,513	-	904,513
Change in due to other funds	(21,000)	(12,000)	(33,000)
Change in customer deposits	13,030	-	13,030
Net cash provided by (used for) non-capital financing activities	<u>896,543</u>	<u>(12,000)</u>	<u>884,543</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,042,679)	(3,295)	(1,045,974)
Proceeds from debt	-	-	-
Principal paid on long-term debt	(135,868)	(94,863)	(230,731)
Interest paid on long-term debt	(198,674)	(71,781)	(270,455)
Capital contributions	2,055	500	2,555
Net cash used for capital and related financing activities	<u>(1,375,166)</u>	<u>(169,439)</u>	<u>(1,544,605)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	575	55	630
Net cash provided by investing activities	<u>575</u>	<u>55</u>	<u>630</u>
Net increase (decrease) in cash and cash equivalents	(107,240)	(7,014)	(114,254)
Cash and cash equivalents, June 30, 2011	<u>337,973</u>	<u>11,390</u>	<u>349,363</u>
Cash and cash equivalents, June 30, 2012	<u>\$ 230,733</u>	<u>\$ 4,376</u>	<u>\$ 235,109</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
Operating loss	\$ (169,373)	\$ 18,061	\$ (151,312)
Adjustments:			
Depreciation	427,613	176,702	604,315
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(7,627)	2,859	(4,768)
Increase (decrease) in accounts payable	121,991	(25,481)	96,510
Increase (decrease) in other accrued liabilities	(1,796)	2,229	433
Net cash provided by (used for) operating activities	<u>\$ 370,808</u>	<u>\$ 174,370</u>	<u>\$ 545,178</u>

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

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Property taxes	\$ 205,000	\$ -	\$ 205,000	\$ 240,038	\$ 35,038
Delinquent taxes	23,647	-	23,647	21,824	(1,823)
Franchise taxes	71,172	-	71,172	56,629	(14,543)
Arrest fees, fines and forfeitures	-	-	-	4,893	4,893
Occupational license fee	1,674,590	-	1,674,590	1,601,498	(73,092)
Garbage collections	340,000	-	340,000	380,125	40,125
Tourism tax	308,000	-	308,000	497,405	189,405
Insurance premium tax	325,500	-	325,500	319,481	(6,019)
Parks and recreation	38,000	-	38,000	41,491	3,491
Grant income	85,000	-	85,000	481,927	396,927
Coal severance	94,000	-	94,000	61,641	(32,359)
Municipal road aid	-	-	-	189,099	189,099
Interest income	450	-	450	978	528
Other income	134,000	-	134,000	10,703	(123,297)
<b>Total revenues</b>	<b>3,299,359</b>	<b>-</b>	<b>3,299,359</b>	<b>3,907,732</b>	<b>608,373</b>
<b>Expenditures</b>					
General government	1,044,484	(10,000)	1,034,484	1,056,606	(22,122)
Police	454,927	-	454,927	533,477	(78,550)
Fire	184,575	100,000	284,575	291,621	(7,046)
Park	411,736	(75,000)	336,736	308,033	28,703
Streets	231,879	-	231,879	265,743	(33,864)
Sanitation	399,706	-	399,706	270,024	129,682
Social service	14,400	15,000	29,400	20,400	9,000
Capital outlay	36,000	(25,000)	11,000	-	11,000
Debt service	523,652	(5,000)	518,652	1,081,728	(563,076)
<b>Total expenditures</b>	<b>3,301,359</b>	<b>-</b>	<b>3,301,359</b>	<b>3,827,632</b>	<b>(526,273)</b>
Excess (deficiency) of revenues over (under) expenditures	(2,000)	-	(2,000)	80,100	82,100
<b>Other financing sources (uses):</b>					
Proceeds from debt	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(2,000)	-	(2,000)	80,100	82,100
Fund balance, beginning of year	2,000	-	2,000	1,198,322	1,196,322
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,278,422</u>	<u>\$ 1,278,422</u>

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

material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2012-1, 2012-2, 2012-3, and 2012-4.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-5.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Mayor, members of the City Council, others within the entity and the Kentucky Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

*Kelley, Galloway & Company, PSC*

December 17, 2012



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the Center for Public Company Audit Firms, the Private Companies Practice Section of the American Institute of Certified Public Accountants and ICF North America Network

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT  
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Jackson's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board, management, others within the entity, the Kentucky Department of Local Government, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Kelley, Dalloway & Company, PSC*

December 17, 2012

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**(A) SUMMARY OF AUDIT RESULTS**

Type of Auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified?   x   yes        no

Significant deficiency(ies) identified that are not considered to material weaknesses?        yes   x   none reported

Noncompliance material to the financial statements noted?   x   yes        no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        yes   x   no

Significant deficiency(ies) identified that are not considered to be material weakness(es).        yes   x   none reported

Type of audit auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        yes   x   no

The District had the following major programs with CFDA numbers indicated for the year ended June 30, 2012:

CDBG/State's Program	14.255
Appalachian Regional Commission	23.002

Dollar threshold to distinguish between Type A and Type B Programs:   \$  300,000  

The District qualified as a low risk auditee        yes   x   no

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**(B) FINDINGS RELATED TO FINANCIAL STATEMENTS IN ACCORDANCE WITH  
GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS**

**2012-1 Water and Sewer Funds**

Statement of Condition: We noted that transfers made between bank accounts within the same fund for the Water and Sewer Funds are recorded as transfer income and expense rather than making the appropriate entry to the cash account on the general ledger. As a result, none of the bank accounts for the Water and Sewer Funds reconcile to the general ledger at any point during the year and water and sewer revenue accounts are misstated.

Criteria for Condition: Bank reconciliations should be prepared and agreed to the general ledger to ensure that all transactions have been properly recorded.

Cause of Condition: Bank reconciliations are prepared; however, they are not agreed to the general ledger and do not agree due to recording transfers incorrectly.

Effect of Condition: Errors in posting are not being corrected on a timely basis.

Recommendation for Correction: We recommend that all reconciliations be agreed to the general ledger and any adjustments be identified and corrected on a timely basis.

Management Response and Corrective Action Plan: City management has converted the water and sewer funds to a new accounting system to correct this effective July 1, 2012.

**2012-2 City Bank Accounts**

Statement of Condition: We noted the activity for certain bank accounts is not maintained in the general ledger throughout the year. Annual audit adjustments are made to include the whole year's activity in the general ledger for the following accounts:

- Police Department Account
- State Road Aid Coal Severance Street Fund
- 2009 Bond Account
- Tourism Promotion Account
- Fire Reserve Account
- 2006 KADD Bond Account
- Parks and Recreation Account
- Splash Park Project

Criteria for Condition: All bank accounts owned by the City should be recorded in the financial records for a complete set of financial statements.

Cause of Condition: These accounts are not everyday operating accounts and have never had their activity included in the general ledger until the audit.

Effect of Condition: As a result, financial statements prepared during the year would give an incomplete picture of the City's finances. However, currently the City relies on cash activity reports of each bank account rather than financial statements generated through the City's general ledger system.

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

Recommendation for Correction: We recommend that these accounts be treated the same as the everyday operating accounts and included in the general ledger. They could be set-up as a special revenue fund separate from the General Fund to avoid confusion on budget comparisons.

Management Response and Corrective Action Plan: These accounts will be added to the general ledger. Management plans to set them up as Special Revenue Funds.

**2012-3 Payables and Receivables**

Statement of Condition: We had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2012. The City is not utilizing the accounts payable function within their software; therefore, accounts payable balances are not accurate.

Criteria for Condition: Modified accrual or accrual (for Proprietary Fund Types) basis of accounting is recommended by the American Institute of Certified Public Accountants in its industry audit guide, "Audits of State and Local Governmental Units".

Cause of Condition: The City currently does not maintain its accounting records on a modified accrual or accrual basis.

Effect of Condition: As a result, financial statements prepared during the year could be misleading.

Recommendation for Correction: We recommend that the City utilize the accounts payable function within their accounting system to be able to view at any point in time open invoices/accounts payable and to adjust the other liabilities and accounts receivable balances on at least an annual basis.

Management Response and Corrective Action Plan: The City is currently looking at their system to see if they need to change accounting software or learn to use the accounting software that they currently have to its fullest. The City plans to correct this as soon as possible.

**2012-4 Debt Service**

Statement of Condition: We noted that debt payments are being charged against liability accounts in the General Fund rather than as debt service expense as required for the modified cash basis of accounting for governmental funds. These amounts increased expenses by \$738,401.

Criteria for Condition: All long-term debt payments should be recorded as debt service expense.

Cause of Condition: An incorrect account coding has been set-up for the long-term debt payments within the liability section rather than the expenses of the City.

Effect of Condition: As a result, financial statements and budget comparisons made during the year would contain errors.

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2012**

Recommendation for Correction: We recommend that the coding be corrected for the long-term debt payments. We also recommend that someone independent of the financial statement preparation review the monthly balance sheets for reasonableness, so that errors in coding can be detected.

Management Response and Corrective Action Plan: The City will correct the coding for long-term debt payments. In addition, the City plans to have the monthly balance sheets reviewed by a third party so that errors might be caught sooner.

**2012-5 Budgeting**

Statement of Condition: The City had revenues and expenditures in excess of budgeted amounts.

Criteria for Condition: KRS 91A.030 states that no city shall expend any moneys from any governmental or proprietary fund, except in accordance with the budget ordinance adopted.

Cause of Condition: The City received unanticipated grant funds and loan proceeds and did not amend the budget as a result.

Effect of Condition: Noncompliance with state laws.

Recommendation for Correction: We recommend that when the City anticipates additional revenues and/or expenditures that the budget be amended to incorporate those amounts.

Management Response and Corrective Action Plan: To correct the City's non-compliance with State Law KRS 91A.030, the City intends to amend the budget as additional revenues or expenditures occur in order to comply with the law.

**(C) FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

There were none in the current year.

**CITY OF JACKSON, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Finding 2011-1**

Water and Sewer Funds

We noted that transfers made between bank accounts within the same fund for the Water and Sewer Funds are recorded as transfer income and expense rather than making the appropriate entry to the cash account on the general ledger. As a result, none of the bank accounts for the Water and Sewer Funds reconcile to the general ledger at any point during the year and water and sewer revenue accounts are misstated.

Resolution

This finding is repeated in the current year at 2012-1.

**Finding 2011-2**

City Bank Accounts

Statement of Condition: We noted the activity for certain bank accounts is not maintained in the general ledger throughout the year. Annual audit adjustments are made to include the whole year's activity in the general ledger for the following accounts:

- Police Department Account
- State Road Aid Coal Severance Street Fund
- 1999 Bond Depreciation Account
- Tourism Promotion Account
- Fire Reserve Account
- 2006 KADD Bond Account

Resolution

This finding is repeated in the current year at 2012-2.

**Finding 2011-3**

Payables and Receivables

We had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2011. The City is not utilizing the accounts payable function within their software; therefore, accounts payable balances are not accurate.

Resolution

This finding is repeated in the current year at 2012-3.

**CITY OF JACKSON, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2012**

**Finding 2011-4**

Retirement Expense

We noted that the City's portion of retirement expense is being charged to the liability account rather than the expense account. An adjustment in the amount of \$108,444.37 was needed to properly record the retirement expense for the General Fund for the year ending June 30, 2011.

Resolution

This finding was corrected in the current year.

**Finding 2011-5**

Debt Service

We noted that debt payments are being charged against liability accounts in the General Fund rather than as debt service expense as required for the modified cash basis of accounting for governmental funds. These amounts increased expenses by \$236,314.27.

Resolution

This finding is repeated in the current year at 2012-4.

**Finding 2011-6**

Budgeting

The City had revenues and expenditures in excess of budgeted amounts.

Resolution

This finding is repeated in the current year at 2012-5.

**Additional Status Update for 2010 Finding Temporarily Extended in 2011 and Resolved in 2012:**

**Finding 2010-8**

FEMA

Federal Program: CFDA # 97.036 – Public Assistance Grants  
Federal Agency: Department of Homeland Security  
Pass-Through Agency: Commonwealth of Kentucky, Division of Emergency Management

Compliance: All applicable areas  
Amount of Questioned Costs: \$342,564

The City received advance grant funds from FEMA and the Commonwealth of Kentucky for repair costs under FEMA major disasters designated 1841-DR. The City was unable to provide an accounting for the actual costs incurred for the large projects.

Resolution

The City has set-up a repayment agreement in the amount of \$152,790 to repay the remaining unexpended funds at the end of the 14 month extension. This liability has been accrued in the financial statements as of June 30, 2012. See Note 6 for a description of the liability.