

CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

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, 2009, which collectively comprise the City's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the City of Jackson'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, 2009, and the respective changes in financial position and cash flows, where applicable, 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 April 6, 2010 on our consideration of the City of Jackson'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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Kelley, Galloway & Company, PSC
April 6, 2010

Management's Discussion and Analysis Year Ended June 30, 2009

The discussion and analysis of the City of Jackson, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2009. This information is presented in conjunction with the audited financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Governmental Activities exceeded its liabilities at the end of the fiscal year by \$196,358 (net assets). Governmental activities' unrestricted net assets were \$585,727 and are used to meet the Government's ongoing obligations. The assets of the Business-type activities' exceeded its liabilities at the end of the fiscal year by \$9,085,975 (net assets). Business-type activities' unrestricted net assets were (\$624,068).
- The Government's total net assets decreased by \$564,988. Net assets of governmental activities decreased by \$257,458 and net assets of business-type activities decreased by \$307,530.
- At June 30, 2009, the governmental activities had \$5,800,063 in assets and \$5,603,705 in liabilities. Business-type activities had \$14,902,979 in assets and \$5,817,004 in liabilities.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private - sector business.

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

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include public safety, public works, recreation, and community development. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

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 basic governmental and proprietary fund financial statements can be found on pages 10 - 17 of this report.

CITY OF JACKSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Total Governmental Funds
Assets		
Cash	\$ 47,917	\$ 47,917
Fee receivable	31,849	31,849
Taxes receivable	9,921	9,921
Grants receivable	-	0
Restricted assets-cash	462	462
Investments-debt service of 1999	151,897	151,897
Investments-debt service - KADD	358,703	358,703
Due from other funds	672,252	672,252
Total assets	\$ 1,273,001	\$ 1,273,001
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 113,249	\$ 113,249
Accrued expenses	62,963	62,963
Total liabilities	176,212	176,212
Fund Balances:		
Reserved for construction	358,703	358,703
Reserved for debt service	152,359	152,359
Unreserved	585,727	585,727
Total fund balances	1,096,789	1,096,789
Total liabilities and fund balances	\$ 1,273,001	\$ 1,273,001

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, 2009

Total fund balance - total governmental funds	\$ 1,096,789
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$7,610,560, net of accumulated depreciation of \$3,083,498 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,527,062
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>(5,427,493)</u>
Net assets, end of year - Governmental Activities	<u>\$ 196,358</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, 2009

	General	Total Governmental Funds
Revenues		
Property taxes	\$ 219,041	\$ 219,041
Delinquent property taxes	16,405	16,405
Franchise taxes	56,367	56,367
Occupational license fees	756,546	756,546
Arrest fees, fines and forfeitures	12,944	12,944
Garbage collections	352,661	352,661
Tourism tax	290,219	290,219
Insurance premiums	257,248	257,248
Parks and recreation	46,828	46,828
Grant income	23,131	23,131
Coal/mineral severance & LGEA	71,095	71,095
Municipal road aid	49,700	49,700
Interest income	2,230	2,230
Other income	135,986	135,986
Total revenues	<u>2,290,401</u>	<u>2,290,401</u>
Expenditures		
General government	731,210	731,210
Police	413,889	413,889
Fire	209,694	209,694
Streets	224,249	224,249
Sanitation	154,230	154,230
Parks	262,597	262,597
Social service	14,400	14,400
Capital outlay	480,058	480,058
Debt service	483,739	483,739
Total expenditures	<u>2,974,066</u>	<u>2,974,066</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(683,665)</u>	<u>(683,665)</u>
Other financing sources (uses):		
Proceeds from capital lease obligations	<u>443,372</u>	<u>443,372</u>
Total other financing sources (uses)	<u>443,372</u>	<u>443,372</u>
Net change in fund balances	(240,293)	(240,293)
Fund balance, beginning of year	<u>1,337,082</u>	<u>1,337,082</u>
Fund balance, end of year	<u>\$ 1,096,789</u>	<u>\$ 1,096,789</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, 2009

Net change in fund balances - total governmental funds	\$ (240,293)
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.	218,694
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>(235,859)</u>
Change in net assets of governmental activities	<u>\$ (257,458)</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, 2009

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 139,513	\$ 13,263	\$ 152,776
Accounts receivable - utilities	164,167	97,668	261,835
Due from other funds	-	-	-
Total current assets	<u>303,680</u>	<u>110,931</u>	<u>414,611</u>
Restricted Assets:			
Cash and cash equivalents	50,270	345	50,615
Total restricted assets	<u>50,270</u>	<u>345</u>	<u>50,615</u>
Capital Assets:			
Property, plant and equipment	14,686,041	7,874,357	22,560,398
Less: Accumulated depreciation	(4,365,773)	(3,084,620)	(7,450,393)
Total capital assets - net	<u>10,320,268</u>	<u>4,789,737</u>	<u>15,110,005</u>
Total assets	<u>\$ 10,674,218</u>	<u>\$ 4,901,013</u>	<u>\$ 15,575,231</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	\$ 55,368	\$ 23,206	\$ 78,574
Due to other funds	425,332	246,920	672,252
Accrued liabilities	37,243	14,389	51,632
Accrued interest payable	74,207	45,384	119,591
Current portion of debt	239,554	1,141,037	1,380,591
Total current liabilities (payable from current assets)	<u>831,704</u>	<u>1,470,936</u>	<u>2,302,640</u>
Current liabilities (payable from restricted assets):			
Customer deposits	116,630	-	116,630
Total current liabilities (payable from restricted assets)	<u>116,630</u>	<u>-</u>	<u>116,630</u>
Long-term debt, net of current portion	3,614,093	455,893	4,069,986
Total liabilities	<u>4,562,427</u>	<u>1,926,829</u>	<u>6,489,256</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,466,621	3,192,807	9,659,428
Restricted	50,270	345	50,615
Unrestricted	(405,100)	(218,968)	(624,068)
Total net assets	<u>\$ 6,111,791</u>	<u>\$ 2,974,184</u>	<u>\$ 9,085,975</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, 2009

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Water sales	\$ 1,095,841	\$ -	\$ 1,095,841
Sewer service	-	645,799	645,799
Miscellaneous	8,520	5,880	14,400
Total operating revenues	<u>1,104,361</u>	<u>651,679</u>	<u>1,756,040</u>
OPERATING EXPENSES			
Salaries	323,161	179,926	503,087
Depreciation	380,182	147,194	527,376
Taxes and retirement	72,086	45,025	117,111
Utilities	119,717	57,744	177,461
Supplies	227,522	40,841	268,363
Insurance	75,326	49,095	124,421
Contract labor	52,810	19,445	72,255
Sludge hauling	-	6,372	6,372
Miscellaneous	7,309	3,870	11,179
Total operating expenses	<u>1,258,113</u>	<u>549,512</u>	<u>1,807,625</u>
OPERATING INCOME (LOSS)	<u>(153,752)</u>	<u>102,167</u>	<u>(51,585)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	1,278	205	1,483
Grant income	-	-	-
Interest expense	(229,080)	(30,520)	(259,600)
Total non-operating revenues (expenses)	<u>(227,802)</u>	<u>(30,315)</u>	<u>(258,117)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(381,554)</u>	<u>71,852</u>	<u>(309,702)</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>2,172</u>	<u>-</u>	<u>2,172</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(379,382)</u>	<u>71,852</u>	<u>(307,530)</u>
NET ASSETS, JUNE 30, 2008	<u>6,491,173</u>	<u>2,902,332</u>	<u>9,393,505</u>
NET ASSETS, JUNE 30, 2009	<u>\$ 6,111,791</u>	<u>\$ 2,974,184</u>	<u>\$ 9,085,975</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, 2009

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,110,429	\$ 656,166	\$ 1,766,595
Cash payments to suppliers for goods and services	(471,271)	(204,326)	(675,597)
Cash payments to employees	(403,805)	(223,248)	(627,053)
Other operating revenues	8,520	5,880	14,400
Net cash provided by (used for) operating activities	<u>243,873</u>	<u>234,472</u>	<u>478,345</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Change in due to other funds	-	(189,238)	(189,238)
Change in customer deposits	(40)	-	(40)
Net cash provided by (used for) non-capital financing activities	<u>(40)</u>	<u>(189,238)</u>	<u>(189,278)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(47,824)	(497,081)	(544,905)
Proceeds from debt	200,470	494,357	694,827
Principal paid on long-term debt	(90,336)	(17,337)	(107,673)
Interest paid on long-term debt	(235,439)	(13,238)	(248,677)
Capital contributions	2,172	-	2,172
Capital grants received	-	-	-
Net cash used for capital and related financing activities	<u>(170,957)</u>	<u>(33,299)</u>	<u>(204,256)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	1,278	205	1,483
Net cash provided by investing activities	<u>1,278</u>	<u>205</u>	<u>1,483</u>
Net increase (decrease) in cash and cash equivalents	74,154	12,140	86,294
Cash and cash equivalents, June 30, 2008	<u>115,629</u>	<u>1,468</u>	<u>117,097</u>
Cash and cash equivalents, June 30, 2009	<u>\$ 189,783</u>	<u>\$ 13,608</u>	<u>\$ 203,391</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating loss	\$ (153,752)	\$ 102,167	\$ (51,585)
Adjustments:			
Depreciation	380,182	147,194	527,376
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	14,588	10,367	24,955
Increase (decrease) in accounts payable	11,413	(26,959)	(15,546)
Increase (decrease) in other accrued liabilities	(8,558)	1,703	(6,855)
Net cash provided by (used for) operating activities	<u>\$ 243,873</u>	<u>\$ 234,472</u>	<u>\$ 478,345</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, 2009

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 215,000	\$ -	\$ 215,000	\$ 219,041	\$ 4,041
Delinquent taxes	10,000	-	10,000	16,405	6,405
Franchise taxes	50,000	-	50,000	56,367	6,367
Intergovernmental revenues	25,000	-	25,000	-	(25,000)
Occupational license fee	700,000	-	700,000	756,546	56,546
Arrest fees, fines and forfeitures	-	-	-	12,944	12,944
Garbage collections	375,000	-	375,000	352,661	(22,339)
Tourism tax	220,000	-	220,000	290,219	70,219
Insurance premium tax	371,000	-	371,000	257,248	(113,752)
Parks and recreation	-	-	-	46,828	46,828
Grant income	14,000	-	14,000	23,131	9,131
Coal severance & LGEA	80,000	-	80,000	71,095	(8,905)
Municipal road aid	35,000	-	35,000	49,700	14,700
Interest income	-	-	-	2,230	2,230
Other income	113,400	-	113,400	135,986	22,586
Total revenues	2,208,400	-	2,208,400	2,290,401	82,001
Expenditures					
General government	475,000	-	475,000	731,210	(256,210)
Police	515,000	-	515,000	413,889	101,111
Fire	275,000	-	275,000	209,694	65,306
Park	160,000	-	160,000	224,249	(64,249)
Street	166,000	-	166,000	154,230	11,770
Sanitation	310,000	-	310,000	262,597	47,403
Social service	14,400	-	14,400	14,400	-
Capital outlay	-	-	-	480,058	(480,058)
Debt service	310,000	-	310,000	483,739	(173,739)
Total expenditures	2,225,400	-	2,225,400	2,974,066	(748,666)
Excess (deficiency) of revenues over (under) expenditures	(17,000)	-	(17,000)	(683,665)	(666,665)
Other financing sources (uses):					
Proceeds from bond anticipation notes	-	-	-	443,372	443,372
Total other financing sources (uses)	-	-	-	443,372	443,372
Net change in fund balances	(17,000)	-	(17,000)	(240,293)	(223,293)
Fund balance, beginning of year	17,000	-	17,000	1,337,082	1,320,082
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 1,096,789	\$ 1,096,789

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

CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting methods and procedures adopted by the City of Jackson, Kentucky (the "City") conform to U.S. generally accepted accounting principles. The following notes are an integral part of the City of Jackson, Kentucky's financial statements.

The City of Jackson, Kentucky was created by the Acts of the Kentucky General Assembly and operates under an elected Mayor and City Council form of government and provides such services as police, fire, streets, sanitation, parks and recreation, and social service.

a. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. The City considers all governmental and proprietary funds to be major funds, due to their belief that all of these funds present financial information which is important to the financial statement users. Thus, individual governmental funds and individual proprietary funds are reported as separate columns in the fund financial statements.

b. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest 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 measurable and available only when cash is received by the government.

The City reports the following major Governmental Fund:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The City reports the following major Proprietary Fund:

Utility Fund - The Utility Fund is used to account for water and sewer services for the City and surrounding communities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private sector guidance.

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 Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues 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 the City's Enterprise Funds, are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

c. Budgeting

Prior to June 30, the Mayor submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes proposed operating and capital expenditures and the means of financing them. The Mayor is authorized to transfer budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the City Council. Therefore, the level of control on budgetary items is maintained at the department level. Management is of the opinion that its method of adopting the budget is in compliance with applicable regulations.

d. Investments

The City has adopted GASB No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", whereby all investments are reported at fair value in the balance sheet. Unrealized gains and losses are included in other revenues in the combined statement of revenues, expenditures, and changes in fund balances - all governmental funds.

e. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. 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.

All reported capital assets are depreciated with the exception of land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-10 years
Buildings	40 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net assets. During the 2009 fiscal year, there were no additions considered to be infrastructure assets.

f. Statement of Cash Flows

For the purpose of the Statement of Cash Flows, the Proprietary Funds consider all highly liquid investments (including restricted cash) with a maturity of three months or less when purchased to be cash equivalents.

(2) **CASH AND INVESTMENTS**

Deposits - The funds of the City must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2009, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$251,770 and the bank balances totaled \$320,810. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$320,810 was covered by the Bank Insurance Fund as of June 30, 2009.

a. Restricted Cash

The Jackson Municipal Waterworks System is required to maintain restricted bank accounts in accordance with ordinances established in connection with the sale of the Waterworks Revenue Bond issues of 1979, 1980, 1983, 1999, and 2005. Specified amounts of current operating receipts are to be deposited to the restricted bank accounts monthly. Disbursements from the accounts are restricted as specified to the retirement of outstanding bonds, semiannual interest payments, and utility plant additions or replacements.

The City of Jackson, Kentucky maintains certain restricted bank accounts in accordance with the ordinances established for the Public Properties Bond Issue of 1999. In 1999 the City issued \$1,475,000 of bonds for park renovations and the purchase of a garbage truck. Funds earmarked for this purpose are revenues from a tourism tax.

(3) PROPERTY TAXES

Property is assessed at its value on January 1 of each year. Taxes are payable in one installment on or before January 31 of the next year. The City bills and collects its own property taxes.

The 2009 assessed value for real property was \$87,243,598. The tax rate adopted was \$.214 per \$100 valuation.

(4) INVESTMENTS

Investments are administered utilizing the services of the trust department of a bank. A summary of investments at June 30, 2009 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
General Fund -			
Fixed income bond funds	\$ 510,600	\$ 510,600	\$ -
	<u>\$ 510,600</u>	<u>\$ 510,600</u>	<u>\$ -</u>

(5) CAPITAL ASSETS

A summary of changes in the City's capital assets is as follows:

	<u>June 30, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 329,000	\$ -	\$ -	\$ 329,000
Construction in progress	210,324	-	210,324	-
Capital Assets, Depreciated:				
City Hall	1,169,527	-	-	1,169,527
Administrative office & equipment	25,360	-	-	25,360
Infrastructure	220,822	-	-	220,822
Street equipment	93,670	-	-	93,670
Fire equipment & vehicles	805,629	438,951	-	1,244,580
Fire department buildings	525,000	251,431	-	776,431
Parks and recreation	3,562,895	-	-	3,562,895
Sanitation equipment	122,600	-	-	122,600
Police equipment & vehicles	65,675	-	-	65,675
Totals	<u>7,130,502</u>	<u>690,382</u>	<u>210,324</u>	<u>7,610,560</u>
Less: Accumulated Depreciation	<u>(2,822,134)</u>	<u>(261,364)</u>	<u>-</u>	<u>(3,083,498)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 4,308,368</u>	<u>\$ 429,018</u>	<u>\$ 210,324</u>	<u>\$ 4,527,062</u>
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Capital Assets, Depreciated:				
Distribution plant and equipment	20,319,118	-	-	20,319,118
Machinery and equipment	1,159,514	544,904	-	1,704,418
Totals	<u>22,015,494</u>	<u>544,904</u>	<u>-</u>	<u>22,560,398</u>
Less: Accumulated Depreciation	<u>(6,923,018)</u>	<u>(527,375)</u>	<u>-</u>	<u>(7,450,393)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 15,092,476</u>	<u>\$ 17,529</u>	<u>\$ -</u>	<u>\$ 15,110,005</u>

Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 28,628
Police	6,881
Fire	32,288
Street	6,211
Sanitation	17,420
Park	158,895
Infrastructure	11,041
	<u>\$ 261,364</u>
Business-type activities:	
Utilities	<u>\$ 527,376</u>

(6) LONG-TERM DEBT

Business-Type Activities

Long-term debt of Proprietary Funds at June 30, 2009 consists of the following:

Bonds Payable:

\$184,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1979, Series C, payable in annual installments ranging from \$6,000 to \$11,000 through 2015, with interest paid semi-annually at 5.00%	\$ 58,000
\$750,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1980, payable in annual installments ranging from \$18,000 to \$42,000 through 2020, with interest paid semi-annually at 5.00%	370,000
\$60,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1983, payable in annual installments ranging from \$2,000 to \$3,000 through 2022, with interest paid semi-annually at 5.00%	33,000
\$2,217,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006, payable in annual installments ranging from \$60,000 to \$120,000 through 2044, with interest paid semi-annually at 4.5%	2,118,500
\$550,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006B, payable in annual installments ranging from \$10,000 to \$30,000 through 2044, with interest paid semi-annually at 4.5%	526,000
\$140,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1999, payable in annual installments ranging from \$1,500 to \$7,100 through 2039, with	

interest paid semi-annually at 4.50%	<u>126,300</u>
	3,231,800
<u>Capital Lease Obligation:</u>	
\$450,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments of \$3,514 through November, 2022, with interest at 3.82%	413,176
\$550,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments of \$3,324 through November, 2028, with interest at 3.0%	<u>540,864</u>
	<u>954,040</u>
<u>Installment Notes Payable:</u>	
\$144,827 unsecured note payable to a local bank, with monthly interest payments at 5.0% and principal Payment due July, 2010	144,827
\$1,606,068 subordinated assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments ranging from \$50,390 to \$51,199 through 2011 with interest paid semi-annually at 2.2% *	633,383
\$681,983 subordinated assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments ranging from \$20,398 to \$20,958 through 2018 with interest paid semi-annually at 1.8% *	<u>486,527</u>
	<u>1,264,737</u>
Total long-term debt - proprietary funds	5,450,577
Less - current portion	<u>(1,380,591)</u>
	<u>\$ 4,069,986</u>

* The City is in the process of working out a revised payment plan with KIA. No payments have been made on either loan since the year ending June 30, 2007.

The debt service requirements on the above proprietary fund indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 1,380,591	\$ 340,897	\$ 1,721,488
2011	119,751	180,777	300,528
2012	125,559	175,457	301,016
2013	131,809	169,722	301,531
2014	137,393	163,881	301,274
2015-2019	740,811	726,984	1,467,795
2020-2024	724,056	571,205	1,295,261
2025-2029	523,107	467,960	991,067
2030-2034	453,000	349,142	802,142
2035-2039	565,000	250,448	815,448
2040-2044	549,500	112,963	662,463
	<u>\$ 5,450,577</u>	<u>\$3,509,436</u>	<u>\$ 8,960,013</u>

The revenue bonds require monthly deposits to the reserve account of approximately \$780 to attain a balance of \$90,940 as of June 30, 2009. The City had revenue bond reserve funds of \$14,282 at June 30, 2009. The Kentucky Infrastructure Authority installment notes payable also require annual deposits to the reserve account of \$24,137 to attain a balance of \$124,373 as of June 30, 2009. However, the City had \$19,382 of KIA reserve funds at June 30, 2009.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009
<u>Governmental Activities</u>				
General obligation bonds - \$1,475,000 originally issued with interest rates ranging from 4.50% to 5.90%	\$ 1,000,000	\$ -	\$ 60,000	\$ 940,000
Capital lease obligation, KADD, \$4,260,000 with interest rates ranging from 4.0% to 5.5%, with semi-annual payments through May, 2027, secured by buildings and equipment	4,140,000	-	130,000	4,010,000
6.00% Capital lease obligation with a bank, \$443,372 with monthly payments of \$14,882 through May, 2019, secured by a 2008 fire truck	-	443,372	-	443,372
4.29% Capital lease obligation with a bank, \$87,100 with monthly payments of \$1,616 through April, 2011, secured by a sanitation truck	51,634	-	17,513	34,121
	<u>\$ 5,191,634</u>	<u>\$ 443,372</u>	<u>\$ 207,513</u>	<u>\$ 5,427,493</u>
<u>Business-type Activities</u>				
Notes payable	\$ 1,119,910	\$ 144,827	\$ -	\$ 1,264,737
Capital lease obligation	438,713	550,000	34,673	954,040
Bonds payable	3,304,800	-	73,000	3,231,800
Total Business-type Activities	<u>\$ 4,863,423</u>	<u>\$ 694,827</u>	<u>\$ 107,673</u>	<u>\$ 5,450,577</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2009 (including interest payments) are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 251,951	\$ 272,017	\$ 523,968
2011	261,580	259,976	521,556

2012	257,932	247,659	505,591
2013	275,259	234,743	510,002
2014	292,730	220,771	513,501
2015-2019	1,723,041	848,409	2,571,450
2020-2024	1,400,000	402,930	1,802,930
2025-2028	965,000	56,496	1,021,496
	<u>\$ 5,427,493</u>	<u>\$ 2,543,001</u>	<u>\$ 7,970,494</u>

(7) LEGAL CONTINGENCIES

The City is a defendant in various legal actions arising from normal business operations. The City's legal counsel believes these actions are without merit, adequately covered by insurance, or that the ultimate liability, if any, will not materially effect the City's financial position.

(8) RISK MANAGEMENT

Significant losses are covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(9) RETIREMENT

The City contributes to the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

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

Plan members are required to contribute 5% of their annual creditable compensation, and the City is required to contribute 13.5% of the employee's total compensation. Plan members in hazardous positions are required to contribute 8% of their annual creditable compensation, and the City is required to contribute 29.5% of the employees' compensation. The contribution requirements of CERS members and the City are established and may be amended by the CERS Board of Trustees. The contribution requirements of CERS members and the City are established and may be amended by the CERS Board of Trustees. The City's contributions to CERS for the year ending June 30, 2009, were \$146,890, equal to the required contributions for the year.



Kelley,
Galloway &
Company, PSC

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky (the "City") as of and for the year ended June 30, 2009 and have issued our report thereon dated April 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination or control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described in the accompanying schedule of findings and responses are material weaknesses.

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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Mayor, members of the City Council and management of the City of Jackson and is not intended to be and should not be used by anyone other than these specified parties.

Kelley, Galloway Company, PSC

April 6, 2010

**CITY OF JACKSON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 09-01

Accounting Records

The City currently does not maintain its accounting records on a modified accrual or accrual basis. Therefore, numerous year end adjustments are required to record accounts receivable, accounts payable, prepaid expenses, accrued liabilities, etc. 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".

Management's Response

The City is currently evaluating this recommendation and the available alternatives.

Finding 09-02

Budgeting

The City had revenues and expenditures in excess of budgeted amounts. We recommend that when the City anticipates additional revenues and/or expenditures that the budget be amended to incorporate those amounts.

Management's Response

The City will amend the budget for significant changes in expectations in future years.

Finding 09-03

Payment of Invoices

We noted several invoices that did not contain the signature of the Mayor or the Superintendent indicating proper approval. In addition, dual signature checks are required; however, a signature stamp is utilized for the Mayor and Superintendent's signature when one of the signers is absent. We noted instances where the signature stamp was used for both signatures on the check. We also noted instances where only one signature was on the check. Thus, proper approval of disbursements is not evident on either the check or the invoice in these instances. This creates improper segregation of duties, since one person writes the checks, signs the checks with a signature stamp, and posts the entry to the general ledger. We recommend that all invoices be approved by the Mayor or Superintendent, as applicable, and such approval be indicated with their initials. We also recommend that only one signature stamp be utilized on each check and that all bank reconciliations be reviewed by an independent person and indicated as such on the reconciliation with the reviewer's initials and date.

Management's Response

Every effort is made to ensure that at least one signature is an original on all checks; however, at certain times this is not possible. The Mayor or Superintendent will indicate their approval on all invoices.

**CITY OF JACKSON
SCHEDULE OF FINDINGS AND RESPONSES (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2009**

Finding 09-04

Travel Reimbursements

We noted several mileage reimbursements whereby the only support was a listing of cities traveled to along with the roundtrip mileage at the rate of \$.485 per mile. However, the purpose of these trips was not clearly evident on the reimbursement request. We recommend that the City adopt a travel reimbursement policy which requires the business purpose be clearly noted on the request and that such requests made by the Mayor be approved by City Council either individually or through a budget line item. Mileage reimbursements made to the Mayor in FY '09 totaled \$21,142.

Management's Response

Management will adopt a travel reimbursement policy requiring the business purpose for the trip be clearly noted on any requests for reimbursement.