

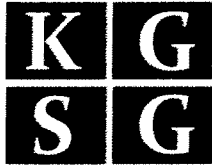
CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	2-3
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position.....	4
Statement of Activities.....	5
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	6
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	9
Statement of Net Position - Proprietary Funds.....	10
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	11
Statement of Cash Flows - Proprietary Funds.....	12
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	13
Statements of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Special Revenue Fund	14
Notes to Financial Statements.....	15-24
Supplementary Information -	
Combining Statements - Non-Major Funds -	
Combining Balance Sheet - Non-Major Governmental Funds.....	25
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Non-Major Governmental Funds.....	26
Schedule of Expenditures of Federal Awards.....	27
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	28-29
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CIRCULAR A-133	30-31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	32-33
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	34



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Kentucky (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Kentucky as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States requires 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The combining statements and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 February 6, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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's internal control over financial reporting and compliance.

Kelley Galloway Smith Doobly, PSC

February 6, 2015
Ashland, Kentucky

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,500	\$ 120,125	\$ 122,625
Accounts receivable	30,475	255,232	285,707
Taxes receivable	4,457	-	4,457
Grants receivable	-	-	-
Due from (to) other funds	515,406	(515,406)	-
Restricted assets -			
Cash and cash equivalents	402,014	131,505	533,519
Investments-debt reserve - KADD	158,275	-	158,275
Nondepreciable capital assets	383,000	1,493,713	1,876,713
Depreciable capital assets	8,170,746	26,220,713	34,391,459
Accumulated depreciation	(4,998,724)	(10,472,844)	(15,471,568)
Total assets	4,668,149	17,233,038	21,901,187
DEFERRED OUTFLOW OF RESOURCES			
Deferred savings from debt refunding	96,600	-	96,600
Total deferred outflow of resources	96,600	-	96,600
LIABILITIES			
Accounts payable	99,895	44,627	144,522
Cash overdraft	7,745	-	7,745
Other accrued liabilities	69,525	30,089	99,614
Current portion of long-term debt	614,244	270,313	884,557
Accrued interest payable	-	76,623	76,623
Customer deposits	-	173,125	173,125
Long-term debt, net of current portion	3,849,377	5,933,525	9,782,902
Total liabilities	4,640,786	6,528,302	11,169,088
NET POSITION			
Net investment in capital assets	(811,999)	11,037,744	10,225,745
Restricted	560,289	131,505	691,794
Unrestricted	375,673	(464,513)	(88,840)
Total net position	\$ 123,963	\$ 10,704,736	\$ 10,828,699

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

**CITY OF JACKSON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 887,217	\$ -	\$ 139,162	\$ -	\$ (748,055)	\$ -	\$ (748,055)
Police	681,556	20,016	-	-	(661,540)	-	(661,540)
Fire	526,935	-	-	-	(526,935)	-	(526,935)
Streets	514,498	-	31,327	-	(483,171)	-	(483,171)
Sanitation	359,864	350,070	-	-	(9,794)	-	(9,794)
Tourism	43,400	-	-	-	(43,400)	-	(43,400)
Parks	438,081	28,847	-	-	(409,234)	-	(409,234)
Social service	175,293	-	153,293	-	(22,000)	-	(22,000)
Infrastructure depreciation	11,041	-	-	-	(11,041)	-	(11,041)
Debt service	720,825	-	-	-	(720,825)	-	(720,825)
Total governmental activities	4,358,710	398,933	323,782	-	(3,635,995)	-	(3,635,995)
Business-Type Activities							
Water	1,734,518	1,336,920	-	720,891	-	323,293	323,293
Sewer	755,086	684,368	-	411,743	-	341,025	341,025
Total business-type activities	2,489,604	2,021,288	-	1,132,634	-	664,318	664,318
Total primary government	\$ 6,848,314	\$ 2,420,221	\$ 323,782	\$ 1,132,634	\$ (3,635,995)	\$ 664,318	\$ (2,971,677)
General Revenues:							
Property and other local taxes					\$ 337,953	\$ -	\$ 337,953
Occupational license fees					1,593,089	-	1,593,089
Insurance premiums					392,281	-	392,281
Tourism tax					310,714	-	310,714
Coal/mineral severance & LGEA					544,729	-	544,729
Interest income					806	897	1,703
Other income					60,723	-	60,723
Total general revenues					3,240,295	897	3,241,192
Change in net position					(395,700)	665,215	269,515
Net position, June 30, 2013					519,663	10,039,521	10,559,184
Net position, June 30, 2014					\$ 123,963	\$ 10,704,736	\$ 10,828,699

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

**CITY OF JACKSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 2,500	\$ -	\$ -	\$ 2,500
Fee receivable	30,475	-	-	30,475
Taxes receivable	4,457	-	-	4,457
Restricted-cash	-	377,553	24,461	402,014
Restricted-investments-debt service	158,275	-	-	158,275
Due from other funds	515,406	-	-	515,406
Total assets	\$ 711,113	\$ 377,553	\$ 24,461	\$ 1,113,127
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 99,895	\$ -	\$ -	\$ 99,895
Cash overdraft	7,745	-	-	7,745
Accrued expenses	69,525	-	-	69,525
Total liabilities	177,165	-	-	177,165
Fund Balances:				
Restricted	158,275	377,553	24,461	560,289
Unassigned	375,673	-	-	375,673
Total fund balances	533,948	377,553	24,461	935,962
Total liabilities and fund balances	\$ 711,113	\$ 377,553	\$ 24,461	\$ 1,113,127

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 POSITION
 JUNE 30, 2014

Total fund balance - total governmental funds	\$ 935,962
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$8,553,746, net of accumulated depreciation of \$4,998,724 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,555,022
Savings from debt refunding are not available to pay current period expenditures and therefore are not reported in the governmental funds	96,600
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>(4,463,621)</u>
Net position - Governmental Activities	<u>\$ 123,963</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, 2014

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 265,082	\$ -	\$ -	\$ 265,082
Delinquent property taxes	16,112	-	-	16,112
Franchise taxes	56,759	-	-	56,759
Occupational license fees	1,593,089	-	-	1,593,089
Arrest fees, fines and forfeitures	-	-	20,016	20,016
Garbage collections	350,070	-	-	350,070
Tourism tax	270,722	39,992	-	310,714
Insurance premiums	272,354	119,927	-	392,281
Parks and recreation	-	-	28,847	28,847
Grant income	53,943	158,293	80,219	292,455
Coal/mineral severance & LGEA	412,523	132,206	-	544,729
Municipal road aid	-	31,327	-	31,327
Interest income	718	85	3	806
Other income	56,433	-	4,290	60,723
Total revenues	<u>3,347,805</u>	<u>481,830</u>	<u>133,375</u>	<u>3,963,010</u>
Expenditures				
General government	858,861	-	-	858,861
Police	607,206	-	39,429	646,635
Fire	309,262	113,755	-	423,017
Streets	317,840	169,238	-	487,078
Sanitation	331,140	-	-	331,140
Tourism	-	43,400	-	43,400
Parks	185,998	64,107	28,479	278,584
Social service	22,000	153,293	-	175,293
Capital outlay	406,315	5,000	51,547	462,862
Debt service	879,522	460,375	-	1,339,897
Total expenditures	<u>3,918,144</u>	<u>1,009,168</u>	<u>119,455</u>	<u>5,046,767</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(570,339)</u>	<u>(527,338)</u>	<u>13,920</u>	<u>(1,083,757)</u>
Other financing sources (uses):				
Transfer to other funds	(490,013)	-	-	(490,013)
Transfer from other funds	-	490,013	-	490,013
Proceeds from debt	475,000	-	-	475,000
Total other financing sources (uses)	<u>(15,013)</u>	<u>490,013</u>	<u>-</u>	<u>475,000</u>
Net change in fund balances	(585,352)	(37,325)	13,920	(608,757)
Fund balance, beginning of year	<u>1,119,300</u>	<u>414,878</u>	<u>10,541</u>	<u>1,544,719</u>
Fund balance, end of year	<u>\$ 533,948</u>	<u>\$ 377,553</u>	<u>\$ 24,461</u>	<u>\$ 935,962</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, 2014

Net change in fund balances - total governmental funds	\$ (608,757)
<p>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 depreciation expense exceeded capital outlays in the current period.</p>	
	68,985
<p>Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:</p>	
Capitalized savings from debt refunding amortization expense.	(8,400)
Capitalized savings from debt refunding (deferred outflow)	105,000
<p>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.</p>	
	<u>47,472</u>
Change in net position of governmental activities	<u>\$ (395,700)</u>

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

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 89,951	\$ 30,174	\$ 120,125
Accounts receivable - utilities	169,730	85,502	255,232
Grants receivable	-	-	-
Total current assets	<u>259,681</u>	<u>115,676</u>	<u>375,357</u>
Restricted Assets:			
Cash and cash equivalents	131,035	470	131,505
Total restricted assets	<u>131,035</u>	<u>470</u>	<u>131,505</u>
Capital Assets:			
Property, plant and equipment	18,879,922	8,834,504	27,714,426
Less: Accumulated depreciation	<u>(6,504,799)</u>	<u>(3,968,045)</u>	<u>(10,472,844)</u>
Total capital assets - net	<u>12,375,123</u>	<u>4,866,459</u>	<u>17,241,582</u>
Total assets	<u>\$ 12,765,839</u>	<u>\$ 4,982,605</u>	<u>\$ 17,748,444</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	\$ 40,380	\$ 4,247	\$ 44,627
Due to other funds	472,702	42,704	515,406
Accrued liabilities	13,900	16,189	30,089
Accrued interest payable	67,511	9,112	76,623
Current portion of debt	<u>169,818</u>	<u>100,495</u>	<u>270,313</u>
Total current liabilities (payable from current assets)	<u>764,311</u>	<u>172,747</u>	<u>937,058</u>
Current liabilities (payable from restricted assets):			
Customer deposits	<u>173,125</u>	-	<u>173,125</u>
Total current liabilities (payable from restricted assets)	<u>173,125</u>	<u>-</u>	<u>173,125</u>
Long-term debt, net of current portion	<u>4,052,081</u>	<u>1,881,444</u>	<u>5,933,525</u>
Total liabilities	<u>4,989,517</u>	<u>2,054,191</u>	<u>7,043,708</u>
NET POSITION			
Net investment in capital assets	8,153,224	2,884,520	11,037,744
Restricted	131,035	470	131,505
Unrestricted	<u>(507,937)</u>	<u>43,424</u>	<u>(464,513)</u>
Total net position	<u>\$ 7,776,322</u>	<u>\$ 2,928,414</u>	<u>\$ 10,704,736</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, 2014

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Water sales	\$ 1,323,406	\$ -	\$ 1,323,406
Sewer service	-	676,904	676,904
Miscellaneous	13,514	7,464	20,978
Total operating revenues	<u>1,336,920</u>	<u>684,368</u>	<u>2,021,288</u>
OPERATING EXPENSES			
Salaries	330,219	168,043	498,262
Depreciation	472,330	174,194	646,524
Taxes and retirement	63,549	26,593	90,142
Utilities	140,840	85,888	226,728
Supplies	301,622	54,392	356,014
Insurance	129,926	104,034	233,960
Contract labor	18,840	24,719	43,559
Sludge hauling	1,867	230	2,097
Miscellaneous	20,685	9,925	30,610
Total operating expenses	<u>1,479,878</u>	<u>648,018</u>	<u>2,127,896</u>
OPERATING INCOME (LOSS)	<u>(142,958)</u>	<u>36,350</u>	<u>(106,608)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	794	103	897
Grant income	718,151	409,743	1,127,894
Interest expense	(254,640)	(107,068)	(361,708)
Total non-operating revenues (expenses)	<u>464,305</u>	<u>302,778</u>	<u>767,083</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>321,347</u>	<u>339,128</u>	<u>660,475</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>2,740</u>	<u>2,000</u>	<u>4,740</u>
INCREASE (DECREASE) IN NET POSITION	324,087	341,128	665,215
NET POSITION, JUNE 30, 2013	<u>7,452,235</u>	<u>2,587,286</u>	<u>10,039,521</u>
NET POSITION, JUNE 30, 2014	<u>\$ 7,776,322</u>	<u>\$ 2,928,414</u>	<u>\$ 10,704,736</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, 2014

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,316,382	\$ 686,741	\$ 2,003,123
Cash payments to suppliers for goods and services	(604,543)	(293,163)	(897,706)
Cash payments to employees	(393,386)	(188,506)	(581,892)
Other operating revenues	13,514	7,464	20,978
Net cash provided by operating activities	<u>331,967</u>	<u>212,536</u>	<u>544,503</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Grant income	1,196,463	409,743	1,606,206
Change in due to other funds	-	-	-
Change in customer deposits	13,990	-	13,990
Net cash provided by (used for) non-capital financing activities	<u>1,210,453</u>	<u>409,743</u>	<u>1,620,196</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,162,199)	(891,902)	(2,054,101)
Proceeds from debt	-	488,652	488,652
Principal paid on long-term debt	(164,337)	(98,463)	(262,800)
Interest paid on long-term debt	(258,912)	(108,994)	(367,906)
Capital contributions	2,740	2,000	4,740
Net cash used for capital and related financing activities	<u>(1,582,708)</u>	<u>(608,707)</u>	<u>(2,191,415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	794	103	897
Net cash provided by investing activities	<u>794</u>	<u>103</u>	<u>897</u>
Net increase in cash and cash equivalents	(39,494)	13,675	(25,819)
Cash and cash equivalents, June 30, 2013	<u>260,480</u>	<u>16,969</u>	<u>277,449</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 220,986</u>	<u>\$ 30,644</u>	<u>\$ 251,630</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (142,958)	\$ 36,350	\$ (106,608)
Adjustments:			
Depreciation	472,330	174,194	646,524
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(7,024)	9,837	2,813
Increase (decrease) in accounts payable	9,237	(13,975)	(4,738)
Increase (decrease) in other accrued liabilities	382	6,130	6,512
Net cash provided by operating activities	<u>\$ 331,967</u>	<u>\$ 212,536</u>	<u>\$ 544,503</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, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 235,494	\$ -	\$ 235,494	\$ 265,082	\$ 29,588
Delinquent taxes	20,290	-	20,290	16,112	(4,178)
Franchise taxes	65,285	-	65,285	56,759	(8,526)
Arrest fees, fines and forfeitures	-	-	-	-	-
Occupational license fee	1,539,590	20,000	1,559,590	1,593,089	33,499
Garbage collections	356,108	-	356,108	350,070	(6,038)
Tourism tax	278,300	-	278,300	270,722	(7,578)
Insurance premium tax	300,400	-	300,400	272,354	(28,046)
Parks and recreation	-	-	-	-	-
Grant income	67,000	-	67,000	53,943	(13,057)
Coal severance	240,000	310,000	550,000	412,523	(137,477)
Municipal road aid	-	-	-	-	-
Interest income	150	-	150	718	568
Other income	87,361	-	87,361	56,433	(30,928)
Total revenues	<u>3,189,978</u>	<u>330,000</u>	<u>3,519,978</u>	<u>3,347,805</u>	<u>(172,173)</u>
Expenditures					
General government	1,172,044	(92,080)	1,079,964	858,861	221,103
Police	489,813	210,187	700,000	607,206	92,794
Fire	312,521	-	312,521	309,262	3,259
Park	308,000	142,000	450,000	185,998	264,002
Streets	221,401	50,599	272,000	317,840	(45,840)
Sanitation	304,706	34,294	339,000	331,140	7,860
Social service	22,000	-	22,000	22,000	-
Capital outlay	5,000	-	5,000	406,315	(401,315)
Debt service	684,493	-	684,493	879,522	(195,029)
Total expenditures	<u>3,519,978</u>	<u>345,000</u>	<u>3,864,978</u>	<u>3,918,144</u>	<u>(53,166)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(330,000)</u>	<u>(15,000)</u>	<u>(345,000)</u>	<u>(570,339)</u>	<u>(225,339)</u>
Other financing sources (uses):					
Transfers out	(20,000)	15,000	(5,000)	(490,013)	(485,013)
Proceeds from debt	350,000	-	350,000	475,000	125,000
Total other financing sources (uses)	<u>330,000</u>	<u>15,000</u>	<u>345,000</u>	<u>(15,013)</u>	<u>(360,013)</u>
Net change in fund balances	-	-	-	(585,352)	(585,352)
Fund balance, beginning of year	-	-	-	1,119,300	1,119,300
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 533,948</u>	<u>\$ 533,948</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
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Tourism tax	\$ -	\$ -	\$ -	\$ 39,992	\$ 39,992
Insurance premium tax	-	-	-	119,927	119,927
Grant income	-	-	-	158,293	158,293
Coal severance	-	-	-	132,206	132,206
Municipal road aid	16,000	-	16,000	31,327	15,327
Interest income	-	-	-	85	85
Other income	-	-	-	-	-
Total revenues	16,000	-	16,000	481,830	465,830
Expenditures					
Fire	-	-	-	113,755	(113,755)
Streets	16,000	-	16,000	169,238	(153,238)
Tourism	-	-	-	43,400	(43,400)
Parks	-	-	-	64,107	(64,107)
Social service	-	-	-	153,293	(153,293)
Capital outlay	-	-	-	5,000	(5,000)
Debt service	-	-	-	460,375	(460,375)
Total expenditures	16,000	-	16,000	1,009,168	(993,168)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(527,338)	(527,338)
Other financing sources (uses):					
Transfers in	-	-	-	490,013	490,013
Total other financing sources (uses)	-	-	-	490,013	490,013
Net change in fund balances	-	-	-	(37,325)	(37,325)
Fund balance, beginning of year	-	-	-	414,878	414,878
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 377,553</u>	<u>\$ 377,553</u>

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

CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(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. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility including, but not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Based upon these criteria, the City has no component units to be reported in these financial statements.

b. 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 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.

c. 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.

d. 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.

e. Investments

Investments are carried at cost. The investment policy allows the City to invest in those instruments authorized by KRS 66.480. The market values of investments in direct obligations of the United States at June 30, 2014, were not materially different than the carrying amounts.

f. 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 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.

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 position. During the 2014 fiscal year, there were no additions considered to be infrastructure assets.

g. Fund Balances

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the City itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the City takes the action to remove or change the constraint;
- Assigned fund balance-amounts the City intends to use for a specific purpose (such as encumbrances); intent can be expressed by the City Commissioners or by an official or body to which the City delegates the authority;

- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When committed, assigned and unassigned resources are available for use, it is the City's policy to use committed and assigned resources first, then unassigned resources as they are needed.

h. 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.

i. Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

g. Recent Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The City adopted GASB No. 65 for the year ending June 30, 2014 and capitalized \$96,600 in savings from debt refunding as a deferred outflow in the current year and recognized \$8,400 of amortization expense as a result.

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* in August 2012. This standard addresses new accounting and financial reporting standards for the activities of certain pension plans that are administered through trusts. In particular, Statement No. 68 establishes:

- Standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures;
- For defined benefit pensions, the methods and assumptions that should be used for employee benefits when projecting those benefits, discounting the projections, and attributing the discounted projections to certain periods;
- Note disclosures and supplementary information based on (1) the number of employers with employees covered by the plan, and (2) whether pension obligations and plan assets are shared; and
- Details of recognition and disclosure requirements for employers (1) with liabilities to defined benefit pension plans, and (2) whose employees are provided with defined contribution pensions.

The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. The City has not completed the process of the evaluation of GASB No. 68.

(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, 2014, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$804,124 and the bank balances totaled \$942,365. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$538,749 was covered by the Bank Insurance Fund and \$403,616 was secured by collateral held by the pledging bank in the City's name as of June 30, 2014.

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.

(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 2014 assessed value for real and tangible property was \$99,735,455. The tax rate adopted was \$.2514 and \$.2807 per \$100 valuation for real and tangible property, respectively.

(4) CAPITAL ASSETS

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

	June 30, 2013	Increases	Decreases	June 30, 2014
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 371,000	\$ 12,000	\$ -	\$ 383,000
Construction in progress	-	153,293	153,293	-
Capital Assets, Depreciated:				
City Hall	1,169,527	8,610	-	1,178,137
Administrative office & equipment	26,760	-	-	26,760
Infrastructure	220,822	-	-	220,822
Street equipment	234,983	-	-	234,983
Fire equipment & vehicles	1,277,871	-	-	1,277,871
Fire department buildings	776,431	-	-	776,431
Parks and recreation	3,603,270	280,248	-	3,883,519
Sanitation equipment	240,720	-	-	240,720
Police equipment & vehicles	169,500	162,004	-	331,503
Totals	8,090,884	616,155	153,293	8,553,746
Less: Accumulated Depreciation	(4,604,847)	(393,877)	-	(4,998,724)
Governmental Activities				
Capital Assets, Net	\$ 3,486,037	\$ 222,278	\$ 153,293	\$ 3,555,022
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Construction in-progress	2,008,150	1,575,633	2,626,932	956,851
Capital Assets, Depreciated:				
Distribution plant and equipment	21,819,644	2,627,088	-	24,446,732
Machinery and equipment	1,773,981	-	-	1,773,981
Totals	26,138,637	4,202,721	2,626,932	27,714,426
Less: Accumulated Depreciation	(9,826,320)	(646,524)	-	(10,472,844)
Business-type Activities				
Capital Assets, Net	\$ 16,312,317	\$ 3,556,197	\$ 2,626,932	\$ 17,241,582

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

Governmental activities:	
General government	\$ 28,356
Police	34,921
Fire	103,918
Street	27,420
Sanitation	28,724
Park	159,497
Infrastructure	<u>11,041</u>
	<u>\$ 393,877</u>
Business-type activities:	
Utilities	<u>\$ 646,524</u>

During the year ended June 30, 2014, the City was the fiscal agent for two projects whereby the CDBG grant funds and capital outlay passed through the City in the amount of \$153,293 for the Federal Place and Pin Oak projects.

(5) LONG-TERM DEBT

Business-Type Activities

Long-term debt of Proprietary Funds at June 30, 2014 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%	\$ 11,000
\$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%	226,000
\$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%	23,000
\$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%	1,968,000
\$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%	488,500

\$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%	114,900
	<u>2,831,400</u>
<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%	285,197
\$890,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments through February, 2040, with interest at rates ranging from 1.1% to 4.7%	821,670
\$465,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments through February, 2038, with interest at 3.125%	436,667
\$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%	434,920
	<u>1,978,454</u>
<u>Installment Notes Payable:</u>	
\$1,500,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments in the amount of \$39,789 through 2030 with interest paid semi-annually at 1.0%	593,774
\$700,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments with interest paid semi-annually at 1.0%	547,107
\$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%	253,103
	<u>1,393,984</u>
Total long-term debt - proprietary funds	6,203,838
Less - current portion	(270,313)
	<u>\$ 5,933,525</u>

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

Year Ending	Principal	Interest	Total
June 30,			
2015	\$ 270,313	\$ 215,558	\$ 485,871
2016	267,889	206,998	474,887
2017	275,703	198,262	473,965

2018	283,123	189,391	472,514
2019	263,253	178,976	442,229
2020-2024	1,136,694	781,324	1,918,018
2025-2028	979,112	629,258	1,608,370
2029-2033	807,777	444,397	1,252,174
2034-2038	794,166	291,006	1,085,172
2039-2043	578,700	114,504	693,204
	<u>\$ 5,656,731</u>	<u>\$3,249,674</u>	<u>\$ 8,906,404</u>

Kentucky Infrastructure Authority – On March 1, 2013 the City obtained a loan from Kentucky Infrastructure Authority for an Infrastructure Revolving Loan in the amount of \$700,000 for sewer system rehabilitation. The City drew down \$607,897 of which \$60,790 has been forgiven for a balance outstanding of \$547,107 at June 30, 2014. The interest rate is fixed at 1.0%. The loan currently has no maturity date and it will be replaced with permanent financing at the completion of the sewer system rehabilitation project.

The revenue bonds require monthly deposits to the reserve account of approximately \$780 to attain a balance of \$90,940 as of June 30, 2014. 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, 2014. The City had \$73,384 of KIA reserve funds at June 30, 2014.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Governmental Activities</u>				
General obligation bonds – \$915,000 originally issued with interest rate of 2.0% with annual payments through June, 2019, secured by park assets and tourism tax	\$ 585,000	\$ -	\$ 90,000	\$ 495,000
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	3,420,000	-	3,420,000	-
Capital lease obligation with Kentucky League of Cities, \$3,385,000 with monthly payments Through January, 2027, secured by general obligations	-	3,385,000	-	3,385,000
4.99% Capital lease obligation with a bank, \$143,620 with monthly payments of \$2,698 through August, 2014, secured by a 2009 Freightliner	36,626	-	31,263	5,363

6.00% Capital lease obligation with a bank, \$443,372 with monthly payments of \$14,882 through May, 2019, secured by a 2009 fire truck	294,603	-	42,631	251,972
Interest-free note payable to Breathitt County Health Department, \$42,000 due in annual installments of \$3,000 through July, 2026, parking lot	39,000	-	3,000	36,000
6.00% Note payable to a local bank, \$30,000 with quarterly payments of \$1,750 through August, 2016, secured by a Dodge Charger	18,839	-	7,000	11,839
6.49% Capital lease obligation with a bank, \$43,422 with monthly payments of \$882 through March, 2017, secured by a excavator	34,734	-	8,578	26,156
FEMA Payable, due in quarterly payments of \$31,460 through December 31, 2014	82,291	75,000	30,000	127,291
	<u>\$ 4,511,093</u>	<u>\$ 3,460,000</u>	<u>\$ 3,632,472</u>	<u>\$ 4,463,621</u>

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<u>Business-type Activities</u>				
Notes payable	\$ 990,739	\$ 488,652	\$ 85,407	\$ 1,393,984
Capital lease obligation	2,068,347	-	89,893	1,978,454
Bonds payable	<u>2,918,900</u>	<u>-</u>	<u>87,500</u>	<u>2,831,400</u>
Total Business-type Activities	<u>\$ 5,977,986</u>	<u>\$ 488,652</u>	<u>\$ 262,800</u>	<u>\$ 6,203,838</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2014 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 614,244	\$ 105,481	\$ 719,725
2015	411,992	112,272	524,264
2016	425,497	100,849	526,346
2017	429,308	89,584	518,892
2018	426,472	78,133	504,605
2019-2023	1,522,610	251,540	1,774,150
2024-2028	633,498	32,885	666,383
	<u>\$ 4,463,621</u>	<u>\$ 770,745</u>	<u>\$ 5,245,366</u>

(6) 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 or results of operations.

(7) 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.

(8) 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 from the KRS website at <https://kyret.ky.gov>.

Funding for CERS is provided by members who contribute 5% of their salary through payroll deductions and by employers of members who contribute 18.89% of the member's salary. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS 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 years ending June 30, 2014, 2013, and 2012, were \$284,958, \$288,280, and \$209,006, equal to the required contributions for the year.

(9) INTERFUND TRANSACTIONS

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 472,702
General Fund	Sewer Fund	42,704

In addition, the General Fund refinanced debt of the Water and Sewer Funds in 2006 for which the Water Fund is paying \$6,170.75/month and the Sewer Fund is paying \$5,890.67/month to the General Fund for their portion of the debt service which offsets debt service expense.

SUPPLEMENTARY INFORMATION

CITY OF JACKSON, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Park	Police Grants	Total Governmental Funds
Assets			
Cash	\$ 1,188	\$ 23,273	\$ 24,461
Total assets	\$ 1,188	\$ 23,273	\$ 24,461
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	-	-	-
Fund Balances:			
Restricted	1,188	23,273	24,461
Total fund balances	1,188	23,273	24,461
Total liabilities and fund balances	\$ 1,188	\$ 23,273	\$ 24,461

CITY OF JACKSON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Park	Police Grants	Total Governmental Funds
Revenues			
Arrest fees, fines and forfeitures	\$ -	\$ 20,016	\$ 20,016
Parks and recreation	28,847	-	28,847
Grant income	-	80,219	80,219
Interest income	3	-	3
Other income	-	4,290	4,290
Total revenues	<u>28,850</u>	<u>104,525</u>	<u>133,375</u>
Expenditures			
Police	-	39,429	39,429
Parks	28,479	-	28,479
Capital outlay	-	51,547	51,547
Debt service	-	-	-
Total expenditures	<u>28,479</u>	<u>90,976</u>	<u>119,455</u>
Excess (deficiency) of revenues over (under) expenditures	<u>371</u>	<u>13,549</u>	<u>13,920</u>
Other financing sources (uses):			
Transfer from other funds	-	-	-
Proceeds from debt	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	371	13,549	13,920
Fund balance, beginning of year	<u>817</u>	<u>9,724</u>	<u>10,541</u>
Fund balance, end of year	<u>\$ 1,188</u>	<u>\$ 23,273</u>	<u>\$ 24,461</u>

CITY OF JACKSON, KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
<u>U.S. Department of Agriculture</u>			
Passed through the Rural Development - Appalachian Regional Commission	23.002	Sewer Rehab	* \$ 305,449
Passed through Kentucky Rural Development - Community Facilities Grant Agreement	10.766	Police Cars	50,000
Total Department of Agriculture			<u>355,449</u>
<u>Environmental Protection Agency</u>			
Passed through the Kentucky Infrastructure Authority - Wastewater Revolving Loan Fund	66.458	A12-23	* 542,947
Total Department of Transportation			<u>542,947</u>
<u>U.S. Department of Interior - National Park System</u>			
Passed through the Kentucky Department for Local Government - Land and Water Conservation Fund Grant	15.916	Splash Park	70,000
Total Department of Interior			<u>70,000</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Kentucky Office of Homeland Security - SHSP Funded Competitive Local Grants	97.036	PO2-094-1400031441	32,000
Total Department of Homeland Security			<u>32,000</u>
<u>U.S. Department of Interior, Office of Surface Mining</u>			
Passed through Kentucky Infrastructure Authority - Abandoned Mine Land Reclamation (AMLR) Program	15.252	Quicksand Project	* 964,036
Total Department of Interior			<u>964,036</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Kentucky Department of Local Government - Community Development Block Grant/State's Program	14.255	11-022	153,593
Total Department of Housing and Urban Development			<u>153,593</u>
<u>U.S. Department of Transportation</u>			
Passed through the Kentucky Transportation Cabinet - Safe Route to Schools (SAFETEA-LU)	20.205	P02-628-1300001524	7,856
Passed through the Kentucky League of Cities - Worker's Compensation Safety Grant	20.600	KLC	2,378
Passed through the Kentucky Office of Highway Safety - Highway Safety Grant	20.600	K4CP-11-25	10,500
Total Department of Transportation			<u>20,734</u>
Total Expenditures of Federal Awards			<u>\$ 2,138,759</u>

* Denotes major program.

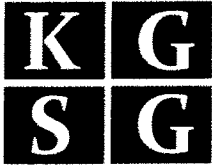
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Jackson, Kentucky under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the City of Jackson, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.



Kelley **G**alloway
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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, 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, each major fund, and the aggregate remaining fund information of the City of Jackson (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 6, 2015.

Internal Control Over Financial Reporting

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

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

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.

We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness, 2014-1.

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 or matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

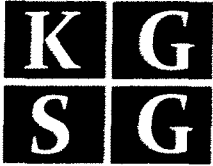
The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kelley Galloway Smith Goolsby, PSC

February 6, 2015
Ashland, Kentucky



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Jackson, Kentucky'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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kelley Galloway Smith Hoelsky, PSC

February 6, 2015
Ashland, Kentucky

**CITY OF JACKSON, KENTUCKY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

(A) SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? x yes no

Significant deficiency(ies) identified? yes x none reported

Noncompliance material to the financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified? yes x none reported

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

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, 2014:

Appalachian Regional Commission	23.002
Wastewater Revolving Loan Fund	66.458
Abandoned Mine Land Reclamation	15.252

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

The District qualified as a low risk auditee yes x no

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

2014-1 Payables and Receivables

Statement of Condition: The City maintains their financial records on a cash basis; therefore, we had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2014.

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 maintains its accounting records on the cash basis of accounting.

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 currently maintains their records on the cash basis of accounting, but will continue to evaluate whether utilizing the receivable and payable functions within their software would be more beneficial.

(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, 2014**

Finding 2013-1

Payables and Receivables

We had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2013. The City is not utilizing the accounts payable function within their software; therefore, accounts payable balances are not accurate.

Resolution

This was repeated in the current year at 2014-1.