

CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky as of and for the year ended June 30, 2007, 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, 2007, 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 17, 2008 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 17, 2008

Management's Discussion and Analysis Year Ended June 30, 2007

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, 2007. 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 \$289,823 (net assets). Governmental activities' unrestricted net assets were \$802,649 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 \$9,657,908 (net assets). Business-type activities' unrestricted net assets were (\$1,029,110).
- The Government's total net assets decreased by \$768,924. Net assets of governmental activities decreased by \$200,056 and net assets of business-type activities decreased by \$568,868.
- At June 30, 2007, the governmental activities had \$5,843,263 in assets and \$5,553,440 in liabilities. Business-type activities had \$14,540,679 in assets and \$4,882,771 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.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 25 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$9,947,731 at the close of the most recent fiscal year.

City of Jackson, Kentucky's Net Assets

	<u>Government- type Activities</u> 2007	<u>Business-type Activities</u> 2007	<u>Government- type Activities</u> 2006	<u>Business-type Activities</u> 2006
Current assets	\$ 1,941,196	\$ 252,990	\$ 2,369,841	\$ 262,989
Capital assets	<u>3,902,067</u>	<u>15,149,179</u>	<u>3,826,885</u>	<u>15,547,791</u>
Total assets	<u>5,843,263</u>	<u>15,402,169</u>	<u>6,196,726</u>	<u>15,810,780</u>
Current liabilities	155,028	1,233,638	308,435	1,348,514
Long-term liabilities	<u>5,398,412</u>	<u>4,510,623</u>	<u>5,398,412</u>	<u>4,235,490</u>
Total liabilities	<u>5,553,440</u>	<u>5,744,261</u>	<u>5,706,847</u>	<u>5,584,004</u>
Net assets:				
Investment in capital assets, net of related debt	(695,047)	10,638,556	(492,174)	10,976,381
Restricted	182,221	48,462	175,892	51,474
Unrestricted	<u>802,649</u>	<u>(1,029,110)</u>	<u>806,161</u>	<u>(801,079)</u>
Total net assets	<u>\$ 289,823</u>	<u>\$ 9,657,908</u>	<u>\$ 489,879</u>	<u>\$ 10,226,776</u>

By far the largest portion of the City net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens and consumers; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities.

City of Jackson, Kentucky's Changes in Net Assets

	<u>Government- type Activities</u> 2007	<u>Business-type Activities</u> 2007	<u>Government- type Activities</u> 2006	<u>Business-type Activities</u> 2006
Revenues:				
Charges for services	\$ 417,970	\$ 1,142,824	\$ 443,176	\$ 1,133,923
Capital grants and contributions	-	79,155	-	1,404,204
Tax levies	279,313	-	259,514	-
Occupational licenses fees	729,524	-	705,284	-
Insurance premiums	390,770	-	344,955	-
Tourism tax	527,203	-	269,890	-
Coal/mineral severance & LGEA	73,430	-	184,611	-

Grants/contributions	56,231	-	431,213	-
Interest income	32,328	2,169	-	2,384
Other income	114,999	-	509,974	-
Total revenues	<u>2,621,768</u>	<u>1,224,148</u>	<u>3,148,617</u>	<u>2,540,511</u>
Expenses:				
General government	960,876	-	572,581	-
Police	513,260	-	478,827	-
Fire	300,147	-	266,678	-
Streets	306,054	-	406,403	-
Sanitation	230,128	-	297,670	-
Park	426,747	-	441,926	-
Social service	14,400	-	18,827	-
Infrastructure	8,066	-	-	-
Debt service	62,146	-	975,136	-
Water	-	1,255,334	-	1,171,810
Sewer	-	537,682	-	520,068
Total expenses	<u>2,821,824</u>	<u>1,793,016</u>	<u>3,458,048</u>	<u>1,691,878</u>
Change in net assets	<u>(200,056)</u>	<u>(568,868)</u>	<u>(309,431)</u>	<u>848,633</u>
Net assets, beginning of year	<u>489,879</u>	<u>10,226,776</u>	<u>799,310</u>	<u>9,378,143</u>
Net assets, ending of year	<u>\$ 289,823</u>	<u>\$ 9,657,908</u>	<u>\$ 489,879</u>	<u>\$ 10,226,776</u>

Government-type activity. Government-type activity net assets decreased by \$200,056 or 40.8%. Key elements of this decrease are as follows:

- Due to less coal severance tax monies received in the current year.

Business-type activity. Business-type activity net assets decreased by \$568,868 or 5.6% due to less grant funding received in the current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the Government's operations in more detail than the government-wide statements by providing information about the Government's most significant funds. Two types of funds are presented in the fund financial statements: governmental funds and proprietary funds.

Governmental funds. Most of the Government's basic services are reported in the governmental funds. These statements provide a short-term view of general government operations and how these services are financed as well as the balances left at year end that are available for future spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash.

Proprietary funds. The City's proprietary fund provides the same type of information found in government-wide financial statements, but in more detail.

Enterprise fund. The Utility Enterprise Fund accounts for operations in a manner similar to a private business enterprise. Operations are accounted for in such a manner as to show net income or loss and the funds are intended to be predominately self supported from user charges.

Capital Assets

The City's investment in capital assets for governmental and business-type activities as of June 30, 2007, amounts to \$19,051,246 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment. The increase in the City's investment in capital assets for the current year was 1.4% percent, before current depreciation.

Major capital asset events during the current fiscal year included the city hall renovations finalized, park renovations, water treatment plant expansion and water line extension.

Additional information on the City's capital assets can be found in Note (5) of the financial statements.

Debt Administration

At the end of the current fiscal year, the City had total debt outstanding of \$9,909,035. Additional information on the City's long-term debt can be found in Note (6) of the financial statements.

Budget Comparisons

- General fund revenues were \$319,768 more than budgeted primarily the result of additional tourism tax monies being received. General fund expenditures were \$677,202 more than budgeted, primarily the result of park renovations.

ECONOMIC FACTORS AND NEXT YEAR'S RATES

In considering the City budget for the fiscal year 2008, the City expects no significant changes.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, investors, and creditors, with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Mike Miller, Mayor or Angie Combs, City Clerk at 333 Broadway, Jackson, Kentucky 41139 or phone (606) 666-7069.

CITY OF JACKSON
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 41,765	\$ 47,975	\$ 89,740
Accounts receivable	33,550	156,553	190,103
Taxes receivable	7,675	-	7,675
Grants receivable	13,197	-	13,197
Due from (to) other funds	861,490	(861,490)	-
Restricted assets -			
Cash and cash equivalents	38,596	48,462	87,058
Investments-debt service of 1999	143,625	-	143,625
Investments-debt proceeds	440,763	-	440,763
Investments-debt reserve - KADD	360,535	-	360,535
Nondepreciable capital assets	329,000	536,862	865,862
Depreciable capital assets	6,141,922	21,029,376	27,171,298
Accumulated depreciation	(2,568,855)	(6,417,059)	(8,985,914)
Total assets	5,843,263	14,540,679	20,383,942
LIABILITIES			
Accounts payable	95,280	137,419	232,699
Other accrued liabilities	59,748	25,759	85,507
Current portion of long-term debt	206,778	472,261	679,039
Accrued interest payable	-	90,300	90,300
Customer deposits	-	118,670	118,670
Long-term debt, net of current portion	5,191,634	4,038,362	9,229,996
Total liabilities	5,553,440	4,882,771	10,436,211
NET ASSETS			
Invested in capital assets, net of related debt	(695,047)	10,638,556	9,943,509
Restricted	182,221	48,462	230,683
Unrestricted	802,649	(1,029,110)	(226,461)
Total net assets	\$ 289,823	\$ 9,657,908	\$ 9,947,731

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

**CITY OF JACKSON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 960,876	\$ -	\$ 22,587	\$ -	\$ (938,289)	\$ -	\$ (938,289)
Police	513,260	13,241	-	-	(500,019)	-	(500,019)
Fire	300,147	-	-	-	(300,147)	-	(300,147)
Streets	306,054	-	33,644	-	(272,410)	-	(272,410)
Sanitation	230,128	372,627	-	-	142,499	-	142,499
Parks	426,747	32,102	-	-	(394,645)	-	(394,645)
Social service	14,400	-	-	-	(14,400)	-	(14,400)
Infrastructure depreciation	8,066	-	-	-	(8,066)	-	(8,066)
Debt service	62,146	-	-	-	(62,146)	-	(62,146)
Total governmental activities	<u>2,821,824</u>	<u>417,970</u>	<u>56,231</u>	<u>-</u>	<u>(2,347,623)</u>	<u>-</u>	<u>(2,347,623)</u>
Business-Type Activities							
Water	1,255,334	726,026	-	79,155	-	(450,153)	(450,153)
Sewer	537,682	416,798	-	-	-	(120,884)	(120,884)
Total business-type activities	<u>1,793,016</u>	<u>1,142,824</u>	<u>-</u>	<u>79,155</u>	<u>-</u>	<u>(571,037)</u>	<u>(571,037)</u>
Total primary government	<u>\$ 4,614,840</u>	<u>\$ 1,560,794</u>	<u>\$ 56,231</u>	<u>\$ 79,155</u>	<u>\$ (2,347,623)</u>	<u>\$ (571,037)</u>	<u>\$ (2,918,660)</u>
		General Revenues:					
					\$ 279,313	\$ -	\$ 279,313
					729,524	-	729,524
					390,770	-	390,770
					527,203	-	527,203
					73,430	-	73,430
					32,328	2,169	34,497
					114,999	-	114,999
					<u>2,147,567</u>	<u>2,169</u>	<u>2,149,736</u>
					<u>(200,056)</u>	<u>(568,868)</u>	<u>(768,924)</u>
					<u>489,879</u>	<u>10,226,776</u>	<u>10,716,655</u>
					<u>\$ 289,823</u>	<u>\$ 9,657,908</u>	<u>\$ 9,947,731</u>

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

**CITY OF JACKSON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Total Governmental Funds
Assets		
Cash	\$ 41,765	\$ 41,765
Fee receivable	33,550	33,550
Taxes receivable	7,675	7,675
Grants receivable	13,197	13,197
Restricted assets-cash	38,596	38,596
Investments-debt service of 1999	143,625	143,625
Investments-debt proceeds	440,763	440,763
Investments-debt service - KADD	360,535	360,535
Due from other funds	861,490	861,490
	<u>\$ 1,941,196</u>	<u>\$ 1,941,196</u>
Total assets		
	<u>\$ 1,941,196</u>	<u>\$ 1,941,196</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 95,280	\$ 95,280
Accrued expenses	59,748	59,748
	<u>155,028</u>	<u>155,028</u>
Total liabilities	<u>155,028</u>	<u>155,028</u>
Fund Balances:		
Reserved for construction	801,298	801,298
Reserved for debt service	182,221	182,221
Unreserved	802,649	802,649
	<u>1,786,168</u>	<u>1,786,168</u>
Total fund balances	<u>1,786,168</u>	<u>1,786,168</u>
Total liabilities and fund balances	<u>\$ 1,941,196</u>	<u>\$ 1,941,196</u>

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

CITY OF JACKSON
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balance - total governmental funds	\$ 1,786,168
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$6,470,922, net of accumulated depreciation of \$2,568,855 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,902,067
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>(5,398,412)</u>
Net assets, end of year - Governmental Activities	<u><u>\$ 289,823</u></u>

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

CITY OF JACKSON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General	Total Governmental Funds
Revenues		
Property taxes	\$ 225,261	\$ 225,261
Delinquent property taxes	6,842	6,842
Franchise taxes	47,210	47,210
Occupational license fees	729,524	729,524
Arrest fees, fines and forfeitures	13,241	13,241
Garbage collections	372,627	372,627
Tourism tax	527,203	527,203
Insurance premiums	390,770	390,770
Parks and recreation	32,102	32,102
Grant income	22,587	22,587
Coal/mineral severance & LGEA	73,430	73,430
Municipal road aid	33,644	33,644
Interest income	32,328	32,328
Other income	114,999	114,999
Total revenues	2,621,768	2,621,768
Expenditures		
General government	928,456	928,456
Police	507,584	507,584
Fire	260,943	260,943
Streets	299,043	299,043
Sanitation	212,708	212,708
Parks	269,355	269,355
Social service	14,400	14,400
Capital outlay	342,371	342,371
Debt service	164,342	164,342
Total expenditures	2,999,202	2,999,202
Excess (deficiency) of revenues over (under) expenditures	(377,434)	(377,434)
Other financing sources (uses):		
Proceeds from capital lease obligations	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	(377,434)	(377,434)
Fund balance, beginning of year, as restated (Note 10)	2,163,602	2,163,602
Fund balance, end of year	\$ 1,786,168	\$ 1,786,168

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

**CITY OF JACKSON
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, 2007**

Net change in fund balances - total governmental funds	\$ (377,434)
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.	75,182
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>102,196</u>
Change in net assets of governmental activities	<u>\$ (200,056)</u>

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

CITY OF JACKSON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 44,947	\$ 3,028	\$ 47,975
Accounts receivable - utilities	102,359	54,194	156,553
Due from other funds	372,400	-	372,400
Total current assets	<u>519,706</u>	<u>57,222</u>	<u>576,928</u>
Restricted Assets:			
Cash and cash equivalents	35,119	13,343	48,462
Total restricted assets	<u>35,119</u>	<u>13,343</u>	<u>48,462</u>
Capital Assets:			
Property, plant and equipment	14,188,961	7,377,277	21,566,238
Less: Accumulated depreciation	<u>(3,632,157)</u>	<u>(2,784,902)</u>	<u>(6,417,059)</u>
Total capital assets - net	<u>10,556,804</u>	<u>4,592,375</u>	<u>15,149,179</u>
Total assets	<u>\$ 11,111,629</u>	<u>\$ 4,662,940</u>	<u>\$ 15,774,569</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	\$ 104,032	\$ 33,387	\$ 137,419
Due to other funds	723,375	510,515	1,233,890
Accrued liabilities	16,569	9,190	25,759
Accrued interest payable	77,063	13,237	90,300
Current portion of debt	<u>78,070</u>	<u>394,191</u>	<u>472,261</u>
Total current liabilities (payable from current assets)	<u>999,109</u>	<u>960,520</u>	<u>1,959,629</u>
Current liabilities (payable from restricted assets):			
Customer deposits	118,670	-	118,670
Total current liabilities (payable from restricted assets)	<u>118,670</u>	<u>-</u>	<u>118,670</u>
Long-term debt, net of current portion	3,312,643	725,719	4,038,362
Total liabilities	<u>4,430,422</u>	<u>1,686,239</u>	<u>6,116,661</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,166,091	3,472,465	10,638,556
Unrestricted	<u>(484,884)</u>	<u>(495,764)</u>	<u>(980,648)</u>
Total net assets	<u>\$ 6,681,207</u>	<u>\$ 2,976,701</u>	<u>\$ 9,657,908</u>

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

CITY OF JACKSON
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Water sales	\$ 722,864	\$ -	\$ 722,864
Sewer service	-	416,490	416,490
Miscellaneous	3,162	308	3,470
Total operating revenues	<u>726,026</u>	<u>416,798</u>	<u>1,142,824</u>
OPERATING EXPENSES			
Salaries	235,736	110,543	346,279
Depreciation	351,149	156,129	507,278
Taxes and retirement	37,167	26,518	63,685
Utilities	113,242	85,329	198,571
Supplies	165,276	54,408	219,684
Insurance	61,624	49,157	110,781
Contract labor	79,945	17,978	97,923
Sludge hauling	-	4,885	4,885
Miscellaneous	24,214	9,794	34,008
Total operating expenses	<u>1,068,353</u>	<u>514,741</u>	<u>1,583,094</u>
OPERATING INCOME (LOSS)	<u>(342,327)</u>	<u>(97,943)</u>	<u>(440,270)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	1,864	305	2,169
Grant income	74,655	-	74,655
Interest expense	(186,981)	(22,941)	(209,922)
Total non-operating revenues (expenses)	<u>(110,462)</u>	<u>(22,636)</u>	<u>(133,098)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(452,789)</u>	<u>(120,579)</u>	<u>(573,368)</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>4,500</u>	<u>-</u>	<u>4,500</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(448,289)</u>	<u>(120,579)</u>	<u>(568,868)</u>
NET ASSETS, JUNE 30, 2006	<u>7,129,496</u>	<u>3,097,280</u>	<u>10,226,776</u>
NET ASSETS, JUNE 30, 2007	<u>\$ 6,681,207</u>	<u>\$ 2,976,701</u>	<u>\$ 9,657,908</u>

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

**CITY OF JACKSON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 714,569	\$ 416,333	\$ 1,130,902
Cash payments to suppliers for goods and services	(395,745)	(207,416)	(603,161)
Cash payments to employees	(265,192)	(141,971)	(407,163)
Other operating revenues	3,162	308	3,470
Net cash provided by operating activities	<u>56,794</u>	<u>67,254</u>	<u>124,048</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Change in due to other funds	132,597	(53,920)	78,677
Change in customer deposits	1,257	-	1,257
Net cash provided by (used for) non-capital financing activities	<u>133,854</u>	<u>(53,920)</u>	<u>79,934</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(108,666)	-	(108,666)
Proceeds from debt	-	-	-
Principal paid on long-term debt	(60,787)	-	(60,787)
Interest paid on long-term debt	(112,344)	(21,960)	(134,304)
Capital contributions	4,500	-	4,500
Capital grants received	74,655	-	74,655
Net cash used for capital and related financing activities	<u>(202,642)</u>	<u>(21,960)</u>	<u>(224,602)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	1,864	305	2,169
Net cash provided by investing activities	<u>1,864</u>	<u>305</u>	<u>2,169</u>
Net increase (decrease) in cash and cash equivalents	(10,130)	(8,321)	(18,451)
Cash and cash equivalents, June 30, 2006	<u>90,196</u>	<u>24,692</u>	<u>114,888</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 80,066</u>	<u>\$ 16,371</u>	<u>\$ 96,437</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	\$ (342,327)	\$ (97,943)	\$ (440,270)
Adjustments:			
Depreciation	351,149	156,129	507,278
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(8,295)	(157)	(8,452)
Increase (decrease) in accounts payable	48,556	14,135	62,691
Increase in other accrued liabilities	7,711	(4,910)	2,801
Net cash provided by (used for) operating activities	<u>\$ 56,794</u>	<u>\$ 67,254</u>	<u>\$ 124,048</u>

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

CITY OF JACKSON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 225,000	\$ -	\$ 225,000	\$ 225,261	\$ 261
Delinquent taxes	10,000	-	10,000	6,842	(3,158)
Franchise taxes	50,000	-	50,000	47,210	(2,790)
Intergovernmental revenues	20,000	-	20,000	-	(20,000)
Occupational license fee	725,000	-	725,000	729,524	4,524
Arrest fees, fines and forfeitures	20,000	-	20,000	13,241	(6,759)
Garbage collections	350,000	-	350,000	372,627	22,627
Tourism tax	234,000	-	234,000	527,203	293,203
Insurance premium tax	360,000	-	360,000	390,770	30,770
Parks and recreation	45,000	-	45,000	32,102	(12,898)
Grant income	-	-	-	22,587	22,587
Coal severance & LGEA	54,000	-	54,000	73,430	19,430
Municipal road aid	34,000	-	34,000	33,644	(356)
Interest income	-	-	-	32,328	32,328
Other income	175,000	-	175,000	114,999	(60,001)
Total revenues	2,302,000	-	2,302,000	2,621,768	319,768
Expenditures					
General government	369,000	-	369,000	928,456	(559,456)
Police	580,000	-	580,000	507,584	72,416
Fire	280,000	-	280,000	260,943	19,057
Park	185,000	-	185,000	299,043	(114,043)
Street	238,000	-	238,000	212,708	25,292
Sanitation	320,000	-	320,000	269,355	50,645
Social service	15,000	-	15,000	14,400	600
Capital outlay	-	-	-	342,371	(342,371)
Debt service	335,000	-	335,000	164,342	170,658
Total expenditures	2,322,000	-	2,322,000	2,999,202	(677,202)
Excess (deficiency) of revenues over (under) expenditures	(20,000)	-	(20,000)	(377,434)	(357,434)
Other financing sources (uses):					
Proceeds from bond anticipation notes	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(20,000)	-	(20,000)	(377,434)	(357,434)
Fund balance, beginning of year, as restated	20,000	-	20,000	2,163,602	2,143,602
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,786,168</u>	<u>\$ 1,786,168</u>

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

**CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

(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 2007 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, 2007, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$176,798 and the bank balances totaled \$235,574. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$169,078 was covered by the Bank Insurance Fund and \$66,496 was collateralized by securities pledged by the bank in the City's name as of June 30, 2007.

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 2007 assessed value for real property was \$79,872,828. The tax rate adopted was \$.208 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, 2007 is as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain (Loss)</u>
General Fund -			
Fixed income bond funds	\$ 944,923	\$ 944,923	\$ -
	<u>\$ 944,923</u>	<u>\$ 944,923</u>	<u>\$ -</u>

(5) CAPITAL ASSETS

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

	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 329,000	\$ -	\$ -	\$ 329,000
Capital Assets, Depreciated:				
City Hall	1,169,527	-	-	1,169,527
Administrative office & equipment	25,360	-	-	25,360
Infrastructure	161,315	59,507	-	220,822
Street equipment	137,170	4,500	48,000	93,670
Fire equipment & vehicles	805,629	-	-	805,629
Fire department buildings	525,000	-	-	525,000
Parks and recreation	2,875,237	238,402	-	3,113,639
Sanitation equipment	97,100	25,500	-	122,600
Police equipment & vehicles	57,713	14,462	6,500	65,675
Totals	<u>6,183,051</u>	<u>342,371</u>	<u>54,500</u>	<u>6,470,922</u>
Less: Accumulated Depreciation	<u>(2,356,166)</u>	<u>(267,189)</u>	<u>(54,500)</u>	<u>(2,568,855)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 3,826,885</u>	<u>\$ 75,182</u>	<u>\$ -</u>	<u>\$ 3,902,067</u>
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Capital Assets, Depreciated:				
Distribution plant and equipment	20,210,451	108,667	-	20,319,118
Machinery and equipment	715,258	-	5,000	710,258
Totals	<u>21,462,571</u>	<u>108,667</u>	<u>5,000</u>	<u>21,566,238</u>
Less: Accumulated Depreciation	<u>(5,914,781)</u>	<u>(507,278)</u>	<u>(5,000)</u>	<u>(6,417,059)</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 15,547,790</u>	<u>\$ (398,611)</u>	<u>\$ -</u>	<u>\$ 15,149,179</u>

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

Governmental activities:	
General government	\$ 32,420
Police	5,676
Fire	39,204
Street	7,011
Sanitation	17,420
Park	157,392
Infrastructure	8,066
	<u>\$ 267,189</u>
Business-type activities:	
Utilities	<u>\$ 398,611</u>

(6) **LONG-TERM DEBT**

Business-Type Activities

Long-term debt of Proprietary Funds at June 30, 2007 consists of the following:

Bonds Payable:

City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1975, Series B, payable in annual installments ranging from \$5,000 to \$8,000 through 2008, with interest paid semi-annually at 6.0%	\$ 12,000
\$57,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1979, Series B, payable in annual installments ranging from \$2,000 to \$3,000 through 2009, with interest paid semi-annually at 4.75%	6,000
\$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%	74,000
\$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%	419,000
\$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%	37,000
\$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%	2,173,178

\$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%	539,335
\$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>130,200</u>
	<u>3,390,713</u>
Installment Notes Payable:	
\$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>1,119,910</u>
Total long-term debt - proprietary funds	4,510,623
Less - current portion	<u>(472,261)</u>
	<u>\$ 4,038,362</u>

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 472,261	\$ 169,468	\$ 641,729
2009	196,095	163,257	359,352
2010	199,174	157,190	356,364
2011	204,371	151,094	355,465
2012	160,247	144,780	305,027
2013-2017	597,765	654,233	1,251,998
2018-2022	535,036	544,978	1,080,014
2023-2027	290,048	455,151	745,199
2028-2032	362,326	382,869	745,195
2033-2037	452,620	292,578	745,198
2038-2042	565,414	179,785	745,199
2043-2047	475,266	43,949	519,215
	<u>\$ 4,510,623</u>	<u>\$3,339,332</u>	<u>\$ 7,849,955</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, 2007. The City had revenue bond reserve funds of \$9,438 at June 30, 2007. 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, 2007. However, the City had \$3,249 of KIA reserve funds at June 30, 2007.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2007:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>Governmental Activities</u>				
General obligation bonds - \$1,475,000 originally issued with interest rates ranging from 4.50% to 5.90%	\$ 1,135,000	\$ -	\$ 65,000	\$ 1,070,000
5.0% Lease Purchase Agreement 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	21,121 4,260,000	-	21,121	-
4.29% Capital lease obligation with a bank, \$87,100 with monthly payments of \$1,616 through April, 2011, secured by a sanitation truck	84,487	-	16,075	68,412
5.5% Note payable, due on demand, secured by vehicle	609	-	609	-
	<u>\$ 5,501,217</u>	<u>\$ -</u>	<u>\$ 102,805</u>	<u>\$ 5,398,412</u>
<u>Business-type Activities</u>				
Notes payable	<u>\$ 1,119,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,119,910</u>
Bonds payable	<u>3,451,500</u>	<u>-</u>	<u>60,787</u>	<u>3,390,713</u>
Total Business-type Activities	<u>\$ 4,571,410</u>	<u>\$ -</u>	<u>\$ 60,787</u>	<u>\$ 4,510,623</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2007 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 206,778	\$ 264,443	\$ 471,221
2009	207,513	255,560	463,073
2010	218,279	246,163	464,442
2011	225,842	236,188	462,030
2012	220,000	226,064	446,064
2013-2017	1,320,000	951,939	2,271,939
2018-2022	1,480,000	559,602	2,039,602
2023-2027	1,520,000	174,460	1,694,460
	<u>\$ 5,398,412</u>	<u>\$ 2,914,419</u>	<u>\$ 8,312,831</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 13.19% 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 28.21% 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, 2007, were \$187,242, equal to the required contributions for the year.

(10) PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the City became aware that total investments-debt proceeds reported in the financial statements for the 2006 fiscal year did not include an outstanding disbursement made by the fiduciary to pay off the Kentucky of League of Cities debt in the amount of \$749,045. As a result, the investment-debt proceeds reported in governmental activities and the general fund financial statements were overstated by \$749,045.

Beginning net asset balances have been restated as follows:

	Governmental Activities	
	As previously Reported	As restated
Statement of Net Assets		
Investments-debt proceeds	\$ 1,572,503	\$ 823,458
Total assets	6,945,771	6,196,726
Net assets:		
Invested in capital assets, net of related debt	256,871	(492,174)
Total net assets	1,238,924	489,879
General Fund		
Total Assets	\$ 3,118,886	\$ 2,369,841
Fund Balances:		
Reserved for construction	1,572,503	823,458
Total fund balance	2,912,647	2,163,602



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, 2007 and have issued our report thereon dated April 17, 2008. 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 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 a 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 are material weaknesses.

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 17, 2008

CITY OF JACKSON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2007

Finding 07-01

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 07-02

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 in the future as needed.