

**CITY OF JACKSON, KENTUCKY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2011**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**



**Kelley,  
Galloway &  
Company, PSC**

**CERTIFIED PUBLIC ACCOUNTANTS**

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Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P.O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail [contact@kelleygalloway.com](mailto:contact@kelleygalloway.com) • Web site [www.kelleygalloway.com](http://www.kelleygalloway.com) •

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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, 2011, which collectively comprise the City's basic financial statements as listed in the forgoing table of contents. These financial statements are the responsibility of the City of Jackson, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Jackson, Kentucky as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the City of Jackson, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City of Jackson has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Jackson's financial statements as a whole. The accompanying schedule of expenditures of federal awards contained on page 23 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Kelley, Dalloway & Company, PSC*

December 23, 2011

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 380,715	\$ 128,500	\$ 509,215
Accounts receivable	30,563	241,583	272,146
Taxes receivable	5,952	-	5,952
Due from (to) other funds	548,406	(548,406)	-
Restricted assets -			
Cash and cash equivalents	50	220,863	220,913
Investments-debt reserve - KADD	358,706	-	358,706
Nondepreciable capital assets	507,844	536,862	1,044,706
Depreciable capital assets	7,474,522	23,536,555	31,011,077
Accumulated depreciation	(3,811,172)	(8,579,026)	(12,390,198)
<b>Total assets</b>	<b>5,495,586</b>	<b>15,536,931</b>	<b>21,032,517</b>
<b>LIABILITIES</b>			
Accounts payable	85,972	80,804	166,776
Other accrued liabilities	40,098	38,324	78,422
Current portion of long-term debt	651,230	226,774	878,004
Accrued interest payable	-	87,911	87,911
Customer deposits	-	140,230	140,230
Long-term debt, net of current portion	4,639,544	5,702,768	10,342,312
<b>Total liabilities</b>	<b>5,416,844</b>	<b>6,276,811</b>	<b>11,693,655</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(1,119,580)	9,564,849	8,803,975
Restricted	358,756	220,863	220,913
Unrestricted	839,566	(525,592)	313,974
<b>Total net assets</b>	<b>\$ 78,742</b>	<b>\$ 9,260,120</b>	<b>\$ 9,338,862</b>

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

**CITY OF JACKSON, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 709,304	\$ -	\$ 719,486	\$ -	\$ 10,182	\$ -	\$ 10,182
Police	470,814	18,691	-	-	(452,123)	-	(452,123)
Fire	346,600	-	-	-	(346,600)	-	(346,600)
Streets	441,247	-	121,675	-	(319,572)	-	(319,572)
Sanitation	323,214	347,764	-	-	24,550	-	24,550
Parks	411,210	47,752	-	-	(363,458)	-	(363,458)
Social service	20,400	-	-	-	(20,400)	-	(20,400)
Infrastructure depreciation	11,041	-	-	-	(11,041)	-	(11,041)
Debt service	546,959	-	-	-	(546,959)	-	(546,959)
Total governmental activities	<u>3,280,789</u>	<u>414,207</u>	<u>841,161</u>	<u>-</u>	<u>(2,025,421)</u>	<u>-</u>	<u>(2,025,421)</u>
<b>Business-Type Activities</b>							
Water	1,342,902	1,116,666	-	889,448	-	663,212	663,212
Sewer	838,636	671,516	-	-	-	(167,120)	(167,120)
Total business-type activities	<u>2,181,538</u>	<u>1,788,182</u>	<u>-</u>	<u>889,448</u>	<u>-</u>	<u>496,092</u>	<u>496,092</u>
Total primary government	<u>\$ 5,462,327</u>	<u>\$ 2,202,389</u>	<u>\$ 841,161</u>	<u>\$ 889,448</u>	<u>\$ (2,025,421)</u>	<u>\$ 496,092</u>	<u>\$ (1,529,329)</u>
<b>General Revenues:</b>							
Property and other local taxes					\$ 310,221	\$ -	\$ 310,221
Occupational license fees					891,400	-	891,400
Insurance premiums					378,081	-	378,081
Tourism tax					301,551	-	301,551
Coal/mineral severance & LGEA					55,164	-	55,164
Interest income					538	1,812	2,350
Other income					178,355	-	178,355
Total general revenues					<u>2,115,310</u>	<u>1,812</u>	<u>2,117,122</u>
Change in net assets					<u>89,889</u>	<u>497,904</u>	<u>587,793</u>
Net assets, June 30, 2010					<u>(11,147)</u>	<u>8,762,216</u>	<u>8,751,069</u>
Net assets, June 30, 2011					<u>\$ 78,742</u>	<u>\$ 9,260,120</u>	<u>\$ 9,338,862</u>

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

CITY OF JACKSON, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Total Governmental Funds
<b>Assets</b>		
Cash	\$ 380,715	\$ 380,715
Fee receivable	30,563	30,563
Taxes receivable	5,952	5,952
Restricted assets-cash	50	50
Investments-debt service - KADD	358,706	358,706
Due from other funds	548,406	548,406
Total assets	\$ 1,324,392	\$ 1,324,392
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 85,972	\$ 85,972
Accrued expenses	40,098	40,098
Total liabilities	126,070	126,070
<b>Fund Balances:</b>		
Reserved for debt service	358,756	358,756
Unreserved	839,566	839,566
Total fund balances	1,198,322	1,198,322
Total liabilities and fund balances	\$ 1,324,392	\$ 1,324,392

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

**CITY OF JACKSON, KENTUCKY**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET ASSETS**  
**JUNE 30, 2011**

Total fund balance - total governmental funds	\$ 1,198,322
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$7,982,366, net of accumulated depreciation of \$3,811,172 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,171,194
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>(5,290,774)</u>
Net assets - Governmental Activities	<u>\$ 78,742</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, 2011**

	General	Total Governmental Funds
<b>Revenues</b>		
Property taxes	\$ 237,400	\$ 237,400
Delinquent property taxes	30,518	30,518
Franchise taxes	42,303	42,303
Occupational license fees	891,400	891,400
Arrest fees, fines and forfeitures	18,691	18,691
Garbage collections	347,764	347,764
Tourism tax	301,551	301,551
Insurance premiums	378,081	378,081
Parks and recreation	47,752	47,752
Grant income	719,486	719,486
Coal/mineral severance & LGEA	55,164	55,164
Municipal road aid	121,675	121,675
Interest income	538	538
Other income	178,355	178,355
Total revenues	<u>3,370,678</u>	<u>3,370,678</u>
<b>Expenditures</b>		
General government	680,676	680,676
Police	464,265	464,265
Fire	240,243	240,243
Streets	426,812	426,812
Sanitation	281,425	281,425
Parks	256,798	256,798
Social service	20,400	20,400
Capital outlay	228,186	228,186
Debt service	864,867	864,867
Total expenditures	<u>3,463,672</u>	<u>3,463,672</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(92,994)</u>	<u>(92,994)</u>
<b>Other financing sources (uses):</b>		
Proceeds from debt	<u>350,000</u>	<u>350,000</u>
Total other financing sources (uses)	<u>350,000</u>	<u>350,000</u>
Net change in fund balances	257,006	257,006
Fund balance, beginning of year	<u>941,316</u>	<u>941,316</u>
Fund balance, end of year	<u>\$ 1,198,322</u>	<u>\$ 1,198,322</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, 2011

Net change in fund balances - total governmental funds \$ 257,006

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. (135,025)

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. (32,092)

Change in net assets of governmental activities \$ 89,889

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

CITY OF JACKSON, KENTUCKY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 121,809	\$ 6,691	\$ 128,500
Accounts receivable - utilities	149,647	91,936	241,583
Total current assets	<u>271,456</u>	<u>98,627</u>	<u>370,083</u>
Restricted Assets:			
Cash and cash equivalents	216,164	4,699	220,863
Total restricted assets	<u>216,164</u>	<u>4,699</u>	<u>220,863</u>
Capital Assets:			
Property, plant and equipment	16,199,060	7,874,357	24,073,417
Less: Accumulated depreciation	<u>(5,136,938)</u>	<u>(3,442,088)</u>	<u>(8,579,026)</u>
Total capital assets - net	<u>11,062,122</u>	<u>4,432,269</u>	<u>15,494,391</u>
Total assets	<u>\$ 11,549,742</u>	<u>\$ 4,535,595</u>	<u>\$ 16,085,337</u>
<b>LIABILITIES</b>			
Current liabilities (payable from current assets):			
Accounts payable	\$ 36,326	\$ 44,478	\$ 80,804
Due to other funds	483,355	65,051	548,406
Accrued liabilities	26,349	11,975	38,324
Accrued interest payable	73,122	14,789	87,911
Current portion of debt	<u>133,888</u>	<u>92,886</u>	<u>226,774</u>
Total current liabilities (payable from current assets)	<u>753,040</u>	<u>229,179</u>	<u>982,219</u>
Current liabilities (payable from restricted assets):			
Customer deposits	140,230	-	140,230
Total current liabilities (payable from restricted assets)	<u>140,230</u>	<u>-</u>	<u>140,230</u>
Long-term debt, net of current portion	4,070,979	1,631,789	5,702,768
Total liabilities	<u>4,964,249</u>	<u>1,860,968</u>	<u>6,825,217</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,857,255	2,707,594	9,564,849
Restricted	216,164	4,699	220,863
Unrestricted	<u>(487,926)</u>	<u>(37,666)</u>	<u>(525,592)</u>
Total net assets	<u>\$ 6,585,493</u>	<u>\$ 2,674,627</u>	<u>\$ 9,260,120</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, 2011**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>OPERATING REVENUES</b>			
Water sales	\$ 1,092,300	\$ -	\$ 1,092,300
Sewer service	-	657,287	657,287
Miscellaneous	24,366	14,229	38,595
Total operating revenues	<u>1,116,666</u>	<u>671,516</u>	<u>1,788,182</u>
<b>OPERATING EXPENSES</b>			
Salaries	274,317	182,651	456,968
Depreciation	388,233	177,506	565,739
Taxes and retirement	64,104	43,467	107,571
Utilities	131,953	73,365	205,318
Supplies	218,422	59,770	278,192
Insurance	99,832	74,715	174,547
Contract labor	24,089	27,403	51,492
Sludge hauling	-	3,519	3,519
Miscellaneous	25,296	13,592	38,888
Total operating expenses	<u>1,226,246</u>	<u>655,988</u>	<u>1,882,234</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(109,580)</u>	<u>15,528</u>	<u>(94,052)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest income	1,720	92	1,812
Grant income	884,598	-	884,598
Interest expense	(116,656)	(182,648)	(299,304)
Total non-operating revenues (expenses)	<u>769,662</u>	<u>(182,556)</u>	<u>587,106</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<u>660,082</u>	<u>(167,028)</u>	<u>493,054</u>
<b>CAPITAL CONTRIBUTIONS (TAPS)</b>	<u>4,850</u>	<u>-</u>	<u>4,850</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>664,932</u>	<u>(167,028)</u>	<u>497,904</u>
<b>NET ASSETS, JUNE 30, 2010</b>	<u>5,920,561</u>	<u>2,841,655</u>	<u>8,762,216</u>
<b>NET ASSETS, JUNE 30, 2011</b>	<u>\$ 6,585,493</u>	<u>\$ 2,674,627</u>	<u>\$ 9,260,120</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, 2011**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,097,266	\$ 657,287	\$ 1,754,553
Cash payments to suppliers for goods and services	(613,861)	(273,024)	(886,885)
Cash payments to employees	(234,291)	(187,278)	(421,569)
Other operating revenues	24,366	14,229	38,595
Net cash provided by (used for) operating activities	<u>273,480</u>	<u>211,214</u>	<u>484,694</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Grant income	884,598	-	884,598
Change in due to other funds	58,023	(181,869)	(123,846)
Change in customer deposits	14,475	-	14,475
Net cash provided by (used for) non-capital financing activities	<u>957,096</u>	<u>(181,869)</u>	<u>775,227</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(1,243,294)	-	(1,243,294)
Proceeds from debt	420,345	890,000	1,310,345
Principal paid on long-term debt	(182,928)	(716,115)	(899,043)
Interest paid on long-term debt	(116,673)	(212,342)	(329,015)
Capital contributions	4,850	-	4,850
Net cash used for capital and related financing activities	<u>(1,117,700)</u>	<u>(38,457)</u>	<u>(1,156,157)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	1,720	92	1,812
Net cash provided by investing activities	<u>1,720</u>	<u>92</u>	<u>1,812</u>
Net increase (decrease) in cash and cash equivalents	114,596	(9,020)	105,576
Cash and cash equivalents, June 30, 2010	<u>223,377</u>	<u>20,410</u>	<u>243,787</u>
Cash and cash equivalents, June 30, 2011	<u>\$ 337,973</u>	<u>\$ 11,390</u>	<u>\$ 349,363</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>			
Operating loss	\$ (109,580)	\$ 15,528	\$ (94,052)
Adjustments:			
Depreciation	388,233	177,506	565,739
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	4,966	22,807	27,773
Increase (decrease) in accounts payable	7,858	(4,627)	3,231
Increase (decrease) in other accrued liabilities	(17,997)	-	(17,997)
Net cash provided by (used for) operating activities	<u>\$ 273,480</u>	<u>\$ 211,214</u>	<u>\$ 484,694</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, 2011**

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>					
Property taxes	\$ 225,000	\$ -	\$ 225,000	\$ 237,400	\$ 12,400
Delinquent taxes	15,000	-	15,000	30,518	15,518
Franchise taxes	55,000	-	55,000	42,303	(12,697)
Arrest fees, fines and forfeitures	-	-	-	18,691	18,691
Occupational license fee	750,000	-	750,000	891,400	141,400
Garbage collections	345,000	-	345,000	347,764	2,764
Tourism tax	260,000	-	260,000	301,551	41,551
Insurance premium tax	330,000	-	330,000	378,081	48,081
Parks and recreation	50,000	-	50,000	47,752	(2,248)
Grant income	29,000	-	29,000	719,486	690,486
Coal severance	80,000	-	80,000	55,164	(24,836)
Municipal road aid	35,000	-	35,000	121,675	86,675
Interest income	-	-	-	538	538
Other income	165,000	-	165,000	178,355	13,355
<b>Total revenues</b>	<b>2,339,000</b>	<b>-</b>	<b>2,339,000</b>	<b>3,370,678</b>	<b>1,031,678</b>
<b>Expenditures</b>					
General government	481,600	-	481,600	680,676	(199,076)
Police	475,000	-	475,000	464,265	10,735
Fire	275,000	-	275,000	240,243	34,757
Park	210,000	-	210,000	256,798	(46,798)
Streets	201,000	-	201,000	426,812	(225,812)
Sanitation	310,000	-	310,000	281,425	28,575
Social service	20,400	-	20,400	20,400	-
Capital outlay	-	-	-	228,186	(228,186)
Debt service	388,000	-	388,000	864,867	(476,867)
<b>Total expenditures</b>	<b>2,361,000</b>	<b>-</b>	<b>2,361,000</b>	<b>3,463,672</b>	<b>(1,102,672)</b>
Excess (deficiency) of revenues over (under) expenditures	(22,000)	-	(22,000)	(92,994)	(70,994)
<b>Other financing sources (uses):</b>					
Proceeds from debt	-	-	-	350,000	350,000
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>350,000</b>	<b>350,000</b>
Net change in fund balances	(22,000)	-	(22,000)	257,006	279,006
Fund balance, beginning of year	22,000	-	22,000	941,316	919,316
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,198,322</u>	<u>\$ 1,198,322</u>

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

CITY OF JACKSON, KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

(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 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.

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

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.

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 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 2011 fiscal year, there were no additions considered to be infrastructure assets.

g. Fund Balances

Beginning with fiscal year 2011, the City implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. 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.

### (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, 2011, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$1,088,834 and the bank balances totaled \$1,235,034. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$861,600 was covered by the Bank Insurance Fund and \$373,434 was secured by collateral held by the pledging bank in the City's name as of June 30, 2011.

#### 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.

In addition, the General Fund is required to maintain restricted accounts in connection with a KADD capital lease obligation whereby \$8,847 of the semi-annual payment is set aside until the balance reaches \$358,700. The balance of this debt service reserve fund at June 30, 2011 was \$358,706.

### (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 2011 assessed value for real property was \$85,835,823. The tax rate adopted was \$.2266 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, 2011 is as follows:

General Fund -	Cost	Fair Market Value	Unrealized Gain (Loss)
Fixed income bond funds	\$ 358,706	\$ 358,706	\$ -
	<u>\$ 358,706</u>	<u>\$ 358,706</u>	<u>\$ -</u>

**(5) CAPITAL ASSETS**

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

	June 30, 2010	Increases	Decreases	June 30, 2011
<b><u>Governmental Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 329,000	\$ -	\$ -	\$ 329,000
Construction in progress	-	178,844	-	178,844
<b>Capital Assets, Depreciated:</b>				
City Hall	1,169,527	-	-	1,169,527
Administrative office & equipment	25,360	-	-	25,360
Infrastructure	220,822	-	-	220,822
Street equipment	93,670	49,342	-	143,012
Fire equipment & vehicles	1,244,580	-	-	1,244,580
Fire department buildings	776,431	-	-	776,431
Parks and recreation	3,562,895	-	-	3,562,895
Sanitation equipment	266,220	-	-	266,220
Police equipment & vehicles	65,675	-	-	65,675
Totals	<u>7,754,180</u>	<u>228,186</u>	<u>-</u>	<u>7,982,366</u>
Less: Accumulated Depreciation	<u>(3,447,961)</u>	<u>(363,211)</u>	<u>-</u>	<u>(3,811,172)</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 4,306,219</u>	<u>\$ (135,025)</u>	<u>\$ -</u>	<u>\$ 4,171,194</u>
<b><u>Business-type Activities</u></b>				
<b>Capital Assets, Not Depreciated:</b>				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Construction in-progress	269,725	1,230,801	1,500,526	-
<b>Capital Assets, Depreciated:</b>				
Distribution plant and equipment	20,319,118	1,500,526	-	21,819,644
Machinery and equipment	1,704,418	12,493	-	1,716,911
Totals	<u>22,830,123</u>	<u>2,743,820</u>	<u>1,500,526</u>	<u>24,073,417</u>
Less: Accumulated Depreciation	<u>(8,013,287)</u>	<u>(565,739)</u>	<u>-</u>	<u>(8,579,026)</u>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 14,816,836</u>	<u>\$ 2,178,081</u>	<u>\$ 1,500,526</u>	<u>\$ 15,494,391</u>

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

Governmental activities:	
General government	\$ 28,628
Police	6,549
Fire	106,357
Street	14,435
Sanitation	41,789
Park	154,412
Infrastructure	11,041
	<u>\$ 363,211</u>
Business-type activities:	
Utilities	<u>\$ 565,739</u>

(6) **LONG-TERM DEBT**

*Business-Type Activities*

Long-term debt of Proprietary Funds at June 30, 2011 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% \$ 40,000

\$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% 317,000

\$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% 29,000

\$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% 2,062,500

\$550,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006B, payable in annual installments ranging from \$10,000 to \$30,000 through 2044, with interest paid semi-annually at 4.5% 512,000

\$140,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1999, payable in annual installments ranging from \$1,500 to \$7,100 through 2039, with interest paid semi-annually at 4.50% 122,000  
3,082,500

Capital Lease Obligation:

\$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% 366,208

\$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% 880,000

\$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% 501,526  
1,747,734

Installment Notes Payable:

\$151,500 unsecured note payable to a local bank,  
with monthly interest payments at 5.25% and principal  
Payment due October, 2010

\$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%

688,500

\$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%

410,808

1,099,308

Total long-term debt - proprietary funds

5,929,542

Less - current portion

(226,774)

\$ 5,702,768

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 226,774	\$ 225,916	\$ 452,690
2013	235,946	218,478	454,424
2014	242,801	210,916	453,717
2015	250,313	203,214	453,527
2016	247,889	195,104	442,993
2017-2021	1,174,040	849,859	2,023,899
2022-2026	943,449	666,993	1,610,442
2027-2031	834,879	541,437	1,376,316
2032-2036	698,667	381,429	1,080,096
2037-2041	787,784	224,236	1,012,020
2042-2046	287,000	45,737	332,737
	<u>\$ 5,929,542</u>	<u>\$3,763,319</u>	<u>\$ 9,692,861</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, 2011. The City had revenue bond reserve funds of \$25,657 at June 30, 2011. 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, 2011. The City had \$154,094 of KIA reserve funds at June 30, 2011.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2011:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
<b><u>Governmental Activities</u></b>				
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	\$ 835,000	\$ -	\$ 80,000	\$ 755,000

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	3,875,000	-	145,000	3,730,000
4.99% Capital lease obligation with a bank, \$143,620 with monthly payments of \$2,698 through August, 2014, secured by a 2009 Freightliner	121,590	-	26,924	94,667
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	411,250	-	50,142	361,107
5.00% Note payable to a local bank, \$350,000 due June, 2012, unsecured	-	350,000	-	350,000
4.29% Capital lease obligation with a bank, \$87,100 with monthly payments of \$1,616 through April, 2011, secured by a sanitation truck	15,842	-	15,842	-
	<u>\$ 5,258,682</u>	<u>\$ 350,000</u>	<u>\$ 317,908</u>	<u>\$ 5,290,774</u>
	Balance			Balance
<b><u>Business-type Activities</u></b>	June 30, 2010	Additions	Deletions	June 30, 2011
Notes payable	\$ 1,448,255	\$ 420,345	\$ 769,292	\$ 1,099,308
Capital lease obligation	911,785	890,000	54,051	1,747,734
Bonds payable	<u>3,158,200</u>	<u>-</u>	<u>75,700</u>	<u>3,082,500</u>
Total Business-type Activities	<u>\$ 5,518,240</u>	<u>\$ 1,310,345</u>	<u>\$ 899,043</u>	<u>\$ 5,929,542</u>

**Governmental Activities**

The annual requirements to amortize the City's indebtedness as of June 30, 2011 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 651,230	\$ 239,922	\$ 891,152
2013	315,002	210,349	525,351
2014	333,992	197,460	531,452
2015	325,716	184,090	509,806
2016	328,135	171,049	499,184
2017-2021	1,556,699	619,927	2,176,626
2022-2026	1,440,000	253,660	1,693,660
2027-2027	340,000	1,507	341,507
	<u>\$ 5,290,774</u>	<u>\$ 1,877,964</u>	<u>\$ 7,168,738</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 16.93% of the employee's total 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 years ending June 30, 2011, 2010, and 2009, were \$188,271, \$174,652, and \$146,890, equal to the required contributions for the year.

**(8) INTERFUND TRANSACTIONS**

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 483,355
General Fund	Sewer Fund	65,051

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.

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grant Number</u>	<u>Expenditures</u>
<u>U. S. Department of Homeland Security</u>			
Passed through Kentucky Division of Emergency Management - Disaster Grants - Public Assistance	97.036	KY-1841-DR	\$ 202,509
Total Department of Homeland Security			<u>202,509</u>
<u>U.S. Department of Agriculture</u>			
Passed through the Kentucky Infrastructure Authority - ARRA - Water and Waste Disposal Systems for Rural Communities	10.781	F2 09-09	1,231,845
Total Department of Agriculture			<u>1,231,845</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	08-102-A	268,155
Total Department of Housing and Urban Development			<u>268,155</u>
<u>U.S. Department of Transportation</u>			
Passed through the Kentucky Infrastructure Authority - ARRA - Highway Planning and Construction	20.205	KY20090312-0420	208,722
Passed through the Kentucky Office of Highway Safety - Highway Safety Grant	20.600	K4CP-10-25	2,004
Total Department of Transportation			<u>210,726</u>
Total Expenditures of Federal Awards			<u>\$ 1,913,235</u>

**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, 2011. 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 assets 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.

**NOTE C - FEMA**

Grant funds received in fiscal year June 30, 2010 were \$554,349 of which \$256,148 has been spent through June 30, 2011 and an extension of 14 months was requested and approved to spend the remaining \$298,201.





Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail [contact@kelleygalloway.com](mailto:contact@kelleygalloway.com) • Web site [www.kelleygalloway.com](http://www.kelleygalloway.com) •

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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 (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 23, 2011. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there could be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2011-1, 2011-2, 2011-3, 2011-4, and 2011-5.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-6.

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

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

*Kelley, Ballouay & Company, P.S.C.*

December 23, 2011



Kelley,  
Galloway &  
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail [contact@kellygalloway.com](mailto:contact@kellygalloway.com) • Web site [www.kelleygalloway.com](http://www.kelleygalloway.com) •

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

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

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

Compliance

We have audited the City of Jackson's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

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

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

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

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

*Kelley, Gallaway & Company, PSC*

December 23, 2011

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**(A) SUMMARY OF AUDIT RESULTS**

Type of Auditor's report issued: Unqualified

Internal Control over financial reporting:

Material weakness(es) identified?   x   yes        no

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

Noncompliance material to the financial statements noted?   x   yes        no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?        yes   x   no

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

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

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

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2011:

ARRA -- Water and Waste Disposal Systems  
For Rural Communities 10.781

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

The District qualified as a low risk auditee        yes   x   no

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2011**

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

**2011-1 Water and Sewer Funds**

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

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

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

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

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

Management Response and Corrective Action Plan: City management is in the process of converting the water and sewer funds to a new accounting system to correct this.

**2011-2 City Bank Accounts**

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

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

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

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

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

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

**2011-3 Payables and Receivables**

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

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

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

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

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

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

**2011-4 Retirement Expense**

Statement of Condition: We noted that the City's portion of retirement expense is being charged to the liability account rather than the expense account. An adjustment in the amount of \$87,279.97 was needed to properly record the retirement expense for the General Fund for the year ending June 30, 2011.

Criteria for Condition: The employer portion of retirement should be recorded as an expense of the City.

Cause of Condition: An incorrect account coding has been set-up for the employer portion of the retirement payment.

Effect of Condition: As a result, financial statements and budget comparisons made during the year can be misleading.

**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2011**

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

Management Response and Corrective Action Plan: The City will correct the account coding for the employer portion of the retirement payments. The City will also have the monthly balance sheets reviewed, so that errors, if any, will be caught sooner.

**2011-5 Debt Service**

Statement of Condition: We noted that debt payments are being charged against liability accounts in the General Fund rather than as debt service expense as required for the modified cash basis of accounting for governmental funds. These amounts increased expenses by \$512,335.99.

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

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

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

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

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

**2011-6 Budgeting**

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

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

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

Effect of Condition: Noncompliance with state laws.

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



**CITY OF JACKSON, KENTUCKY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

None noted.

**CITY OF JACKSON, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding 2010-1**

Water and Sewer Funds

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

Resolution

This finding is repeated in the current year at 2011-1.

**Finding 2010-2**

City Bank Accounts

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

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

Resolution

This finding is repeated in the current year at 2011-2.

**Finding 2010-3**

Payables and Receivables

We had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2010. The City is not utilizing the accounts payable function within their software; therefore, accounts payable balances are not accurate.

Resolution

This finding is repeated in the current year at 2011-3.

**CITY OF JACKSON, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding 2010-4**

Retirement Expense

We noted that the City's portion of retirement expense is being charged to the liability account rather than the expense account. An adjustment in the amount of \$108,444.37 was needed to properly record the retirement expense for the General Fund for the year ending June 30, 2010.

Resolution

This finding is repeated in the current year at 2011-4.

**Finding 2010-5**

Debt Service

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

Resolution

This finding is repeated in the current year at 2011-5.

**Finding 2010-6**

Budgeting

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

Resolution

This finding is repeated in the current year at 2011-6.

**Finding 2010-7**

Payment of Invoices

We noted several invoices that did not contain the signature of the Mayor or the Superintendent indicating proper approval. In addition, dual signature checks are required; however, a signature stamp is utilized for the Mayor and Superintendent's signature when one of the signers is absent. We noted instances where the signature stamp was used for both signatures on the check. We also noted instances where only one signature was on the check.

Resolution

This was corrected during the current year.

**CITY OF JACKSON, KENTUCKY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2011**

**Finding 2010-8**

FEMA

Federal Program: CFDA # 97.036 – Public Assistance Grants

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky, Division of Emergency Management

Compliance: All applicable areas

Amount of Questioned Costs: \$342,564

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

Resolution

The City had allowable expenses in the current year of \$202,509 and received a 14 month extension for expending the remaining funds.

**Finding 2010-9**

FEMA GRANT REPORTING

Federal Program: CFDA # 97.036 – Public Assistance Grants

Federal Agency: Department of Homeland Security

Pass-Through Agency: Commonwealth of Kentucky, Division of Emergency Management

Compliance: Reporting

Amount of Questioned Costs: \$0

The City did not maintain evidence of quarterly progress reports being made on FEMA large projects for the quarters ending 12/31/09, 3/31/10, and 6/30/10 to the Kentucky Division of Emergency Management.

Resolution

The City filed all applicable quarterly reported and is up-to-date on their reporting requirements at the date of this report.