

CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Kentucky (the "City") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Kentucky as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 11 to the financial statements, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of City's Proportionate Share of the Net Pension Liability and the Schedule of Pension Contributions on pages 29-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, and historical context. We have applied certain limited procedures, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements are presented for purpose of additional analysis and is not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kelley Dalloway Smith Goolsby, PSC

January 25, 2016
Ashland, Kentucky

**CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2015**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,500	\$ 47,452	\$ 49,952
Accounts receivable	32,092	257,195	289,287
Taxes receivable	8,322	-	8,322
Grants receivable	-	-	-
Due from (to) other funds	515,406	(515,406)	-
Restricted assets -			
Cash and cash equivalents	307,197	98,642	405,839
Investments-debt reserve - KADD	136,691	-	136,691
Nondepreciable capital assets	515,000	536,862	1,051,862
Depreciable capital assets	8,560,344	27,371,974	35,932,318
Accumulated depreciation	(5,282,707)	(11,183,173)	(16,465,880)
 Total assets	 <u>4,794,845</u>	 <u>16,613,546</u>	 <u>21,408,391</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred savings from debt refunding	88,200	-	88,200
Deferred pension contributions	159,446	75,794	235,240
Total deferred outflow of resources	<u>247,646</u>	<u>75,794</u>	<u>323,440</u>
LIABILITIES			
Accounts payable	116,976	112,910	229,886
Cash overdraft	6,623	-	6,623
Other accrued liabilities	91,237	22,662	113,899
Current portion of long-term debt	445,609	296,639	742,248
Accrued interest payable	-	73,130	73,130
Customer deposits	-	186,450	186,450
Net pension liability	1,148,199	545,801	1,694,000
Long-term debt, net of current portion	3,549,951	5,705,568	9,255,519
 Total liabilities	 <u>5,358,595</u>	 <u>6,943,160</u>	 <u>12,301,755</u>
DEFERRED INFLOW OF RESOURCES			
Deferred pension investment earnings	128,105	60,895	189,000
Total deferred inflow of resources	<u>128,105</u>	<u>60,895</u>	<u>189,000</u>
NET POSITION			
Net investment in capital assets	(114,723)	10,723,456	10,608,733
Restricted	443,888	98,642	542,530
Unrestricted	(773,374)	(1,136,813)	(1,910,187)
 Total net position	 <u>\$ (444,209)</u>	 <u>\$ 9,685,285</u>	 <u>\$ 9,241,076</u>

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

**CITY OF JACKSON, KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 786,522	\$ -	\$ 53,027	\$ -	\$ (733,495)	\$ -	\$ (733,495)
Police	701,582	17,765	-	-	(683,817)	-	(683,817)
Fire	236,521	-	-	-	(236,521)	-	(236,521)
Streets	346,764	-	54,259	-	(292,505)	-	(292,505)
Sanitation	320,413	388,065	-	-	67,652	-	67,652
Tourism	376,081	-	-	-	(376,081)	-	(376,081)
Parks	531,588	85,899	-	-	(445,689)	-	(445,689)
Social service	24,502	-	153,293	-	128,791	-	128,791
Infrastructure depreciation	11,341	-	-	-	(11,341)	-	(11,341)
Debt service	69,189	-	-	-	(69,189)	-	(69,189)
Total governmental activities	<u>3,404,503</u>	<u>491,729</u>	<u>260,579</u>	<u>-</u>	<u>(2,652,195)</u>	<u>-</u>	<u>(2,652,195)</u>
Business-Type Activities							
Water	1,797,489	1,315,017	-	10,295	-	(472,177)	(472,177)
Sewer	755,582	681,141	-	89,352	-	14,911	14,911
Total business-type activities	<u>2,553,071</u>	<u>1,996,158</u>	<u>-</u>	<u>99,647</u>	<u>-</u>	<u>(457,266)</u>	<u>(457,266)</u>
Total primary government	<u>\$ 5,957,574</u>	<u>\$ 2,487,887</u>	<u>\$ 260,579</u>	<u>\$ 99,647</u>	<u>\$ (2,652,195)</u>	<u>\$ (457,266)</u>	<u>\$ (3,109,461)</u>
General Revenues:							
Property and other local taxes					\$ 415,304	\$ -	\$ 415,304
Occupational license fees					1,578,329	-	1,578,329
Insurance premiums					346,107	-	346,107
Tourism tax					333,740	-	333,740
Coal/mineral severance & LGEA					161,672	-	161,672
Interest income					473	693	1,166
Other income					432,521	-	432,521
Total general revenues					<u>3,268,146</u>	<u>693</u>	<u>3,268,839</u>
Change in net position					<u>615,951</u>	<u>(456,573)</u>	<u>159,378</u>
Net position, June 30, 2014, as restated					<u>(1,060,160)</u>	<u>10,141,858</u>	<u>9,081,698</u>
Net position, June 30, 2015					<u>\$ (444,209)</u>	<u>\$ 9,685,285</u>	<u>\$ 9,241,076</u>

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

CITY OF JACKSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 2,500	\$ -	\$ -	\$ 2,500
Fee receivable	32,092	-	-	32,092
Taxes receivable	8,322	-	-	8,322
Restricted-cash	-	272,437	34,760	307,197
Restricted-investments-debt service	136,691	-	-	136,691
Due from other funds	515,406	-	-	515,406
Total assets	\$ 695,011	\$ 272,437	\$ 34,760	\$ 1,002,208
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 116,976	\$ -	\$ -	\$ 116,976
Cash overdraft	6,623	-	-	6,623
Accrued expenses	91,237	-	-	91,237
Total liabilities	214,836	-	-	214,836
Fund Balances:				
Restricted	136,691	272,437	34,760	443,888
Unassigned	343,484	-	-	343,484
Total fund balances	480,175	272,437	34,760	787,372
Total liabilities and fund balances	\$ 695,011	\$ 272,437	\$ 34,760	\$ 1,002,208

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

CITY OF JACKSON, KENTUCKY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET
POSITION
JUNE 30, 2015

Total fund balance - total governmental funds		\$ 787,372
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$9,075,344 net of accumulated depreciation of \$5,282,707 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		3,792,637
Savings from debt refunding are not available to pay current period expenditures and therefore are not reported in the governmental funds		88,200
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred pension investment earnings	(128,105)	
Deferred pension contributions	<u>159,446</u>	31,341
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Debt	(3,995,560)	
Net pension liability	<u>(1,148,199)</u>	<u>(5,143,759)</u>
Net position - Governmental Activities		<u>\$ (444,209)</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, 2015

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 297,981	\$ -	\$ -	\$ 297,981
Delinquent property taxes	61,027	-	-	61,027
Franchise taxes	56,296	-	-	56,296
Occupational license fees	1,578,329	-	-	1,578,329
Arrest fees, fines and forfeitures	-	-	17,765	17,765
Garbage collections	388,065	-	-	388,065
Tourism tax	333,740	-	-	333,740
Insurance premiums	346,107	-	-	346,107
Parks and recreation	-	-	85,899	85,899
Grant income	45,146	133,174	28,000	206,320
Coal/mineral severance & LGEA	111,672	50,000	-	161,672
Municipal road aid	-	54,259	-	54,259
Interest income	421	52	-	473
Other income	432,521	-	-	432,521
Total revenues	<u>3,651,305</u>	<u>237,485</u>	<u>131,664</u>	<u>4,020,454</u>
Expenditures				
General government	815,128	-	-	815,128
Police	616,951	-	32,318	649,269
Fire	213,077	-	-	213,077
Streets	302,723	23,770	-	326,493
Sanitation	292,002	-	-	292,002
Tourism	-	376,081	-	376,081
Parks	360,997	-	61,047	422,044
Social service	22,000	2,502	-	24,502
Capital outlay	327,402	166,196	28,000	521,598
Debt service	644,715	399,499	-	1,044,214
Total expenditures	<u>3,594,995</u>	<u>968,048</u>	<u>121,365</u>	<u>4,684,408</u>
Excess (deficiency) of revenues over (under) expenditures	<u>56,310</u>	<u>(730,563)</u>	<u>10,299</u>	<u>(663,954)</u>
Other financing sources (uses):				
Transfer to other funds	(625,447)	-	-	(625,447)
Transfer from other funds	-	625,447	-	625,447
Proceeds from debt	515,364	-	-	515,364
Total other financing sources (uses)	<u>(110,083)</u>	<u>625,447</u>	<u>-</u>	<u>515,364</u>
Net change in fund balances	(53,773)	(105,116)	10,299	(148,590)
Fund balance, beginning of year	<u>533,948</u>	<u>377,553</u>	<u>24,461</u>	<u>935,962</u>
Fund balance, end of year	<u>\$ 480,175</u>	<u>\$ 272,437</u>	<u>\$ 34,760</u>	<u>\$ 787,372</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, 2015

Net change in fund balances - total governmental funds	\$	(148,590)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		237,615
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following: Capitalized savings from debt refunding amortization expense.		(8,400)
Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.		
CERS contributions	159,446	
Pension expense	(92,181)	67,265
Bond and capital lease proceeds, including related premiums and discounts, are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net position.		(515,364)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.		983,425
Change in net position of governmental activities	\$	615,951

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

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 30,732	\$ 16,720	\$ 47,452
Accounts receivable - utilities	163,467	93,728	257,195
Grants receivable	-	-	-
Total current assets	<u>194,199</u>	<u>110,448</u>	<u>304,647</u>
Restricted Assets:			
Cash and cash equivalents	98,551	91	98,642
Total restricted assets	<u>98,551</u>	<u>91</u>	<u>98,642</u>
Capital Assets:			
Property, plant and equipment	18,896,239	9,012,597	27,908,836
Less: Accumulated depreciation	(7,043,524)	(4,139,649)	(11,183,173)
Total capital assets - net	<u>11,852,715</u>	<u>4,872,948</u>	<u>16,725,663</u>
Total assets	<u>12,145,465</u>	<u>4,983,487</u>	<u>17,128,952</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	49,961	25,833	75,794
Total deferred outflows of resources	<u>49,961</u>	<u>25,833</u>	<u>75,794</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	\$ 67,422	\$ 45,488	\$ 112,910
Due to other funds	472,702	42,704	515,406
Accrued liabilities	17,146	5,516	22,662
Accrued interest payable	65,980	7,150	73,130
Current portion of debt	165,322	131,317	296,639
Total current liabilities (payable from current assets)	<u>788,572</u>	<u>232,175</u>	<u>1,020,747</u>
Current liabilities (payable from restricted assets):			
Customer deposits	186,450	-	186,450
Total current liabilities (payable from restricted assets)	<u>186,450</u>	<u>-</u>	<u>186,450</u>
Net pension liability	359,775	186,026	545,801
Long-term debt, net of current portion	3,886,760	1,818,808	5,705,568
Total liabilities	<u>5,221,557</u>	<u>2,237,009</u>	<u>7,458,566</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension investment earnings	40,140	20,755	60,895
Total deferred inflows of resources	<u>40,140</u>	<u>20,755</u>	<u>60,895</u>
NET POSITION			
Net investment in capital assets	7,800,633	2,922,823	10,723,456
Restricted	98,551	91	98,642
Unrestricted	(965,455)	(171,358)	(1,136,813)
Total net position	<u>\$ 6,933,729</u>	<u>\$ 2,751,556</u>	<u>\$ 9,685,285</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, 2015

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Water sales	\$ 1,313,600	\$ -	\$ 1,313,600
Sewer service	-	669,896	669,896
Miscellaneous	1,417	11,245	12,662
Total operating revenues	<u>1,315,017</u>	<u>681,141</u>	<u>1,996,158</u>
OPERATING EXPENSES			
Personnel	340,444	203,572	544,016
Depreciation	538,725	171,603	710,328
Utilities	182,433	103,301	285,734
Supplies	250,311	66,002	316,313
Insurance	134,462	86,877	221,339
Contract labor	38,144	22,989	61,133
Sludge hauling	-	1,594	1,594
Miscellaneous	26,313	12,063	38,376
Total operating expenses	<u>1,510,832</u>	<u>668,001</u>	<u>2,178,833</u>
OPERATING INCOME (LOSS)	<u>(195,815)</u>	<u>13,140</u>	<u>(182,675)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	615	78	693
Grant income	1,696	87,215	88,911
Interest expense	(286,657)	(87,581)	(374,238)
Total non-operating revenues (expenses)	<u>(284,346)</u>	<u>(288)</u>	<u>(284,634)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(480,161)</u>	<u>12,852</u>	<u>(467,309)</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>8,599</u>	<u>2,137</u>	<u>10,736</u>
INCREASE (DECREASE) IN NET POSITION	<u>(471,562)</u>	<u>14,989</u>	<u>(456,573)</u>
NET POSITION, JUNE 30, 2014, as restated	<u>7,405,291</u>	<u>2,736,567</u>	<u>10,141,858</u>
NET POSITION, JUNE 30, 2015	<u>\$ 6,933,729</u>	<u>\$ 2,751,556</u>	<u>\$ 9,685,285</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, 2015

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,319,863	\$ 661,670	\$ 1,981,533
Cash payments to suppliers for goods and services	(604,621)	(251,585)	(856,206)
Cash payments to employees	(358,275)	(225,144)	(583,419)
Other operating revenues	1,417	11,245	12,662
Net cash provided by operating activities	<u>358,384</u>	<u>196,186</u>	<u>554,570</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Grant income	1,696	87,215	88,911
Change in customer deposits	13,325	-	13,325
Net cash provided by (used for) non-capital financing activities	<u>15,021</u>	<u>87,215</u>	<u>102,236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(16,317)	(178,092)	(194,409)
Proceeds from debt	-	92,103	92,103
Principal paid on long-term debt	(169,817)	(123,917)	(293,734)
Interest paid on long-term debt	(288,188)	(89,543)	(377,731)
Capital contributions	8,599	2,137	10,736
Net cash used for capital and related financing activities	<u>(465,723)</u>	<u>(297,312)</u>	<u>(763,035)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	615	78	693
Net cash provided by investing activities	<u>615</u>	<u>78</u>	<u>693</u>
Net decrease in cash and cash equivalents	(91,703)	(13,833)	(105,536)
Cash and cash equivalents, June 30, 2014	<u>220,986</u>	<u>30,644</u>	<u>251,630</u>
Cash and cash equivalents, June 30, 2015	<u>\$ 129,283</u>	<u>\$ 16,811</u>	<u>\$ 146,094</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (195,815)	\$ 13,140	\$ (182,675)
Adjustments:			
Depreciation	538,725	171,603	710,328
Net pension adjustment	(21,077)	(10,899)	(31,976)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	6,263	(8,226)	(1,963)
Increase (decrease) in accounts payable	27,042	41,241	68,283
Increase (decrease) in other accrued liabilities	3,246	(10,673)	(7,427)
Net cash provided by operating activities	<u>\$ 358,384</u>	<u>\$ 196,186</u>	<u>\$ 554,570</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, 2015

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 255,493	\$ 42,507	\$ 298,000	\$ 297,981	\$ (19)
Delinquent taxes	20,000	38,500	58,500	61,027	2,527
Franchise taxes	64,000	(7,500)	56,500	56,296	(204)
Arrest fees, fines and forfeitures	-	-	-	-	-
Occupational license fee	1,555,000	23,500	1,578,500	1,578,329	(171)
Garbage collections	356,000	30,500	386,500	388,065	1,565
Tourism tax	278,500	55,500	334,000	333,740	(260)
Insurance premium tax	325,000	21,500	346,500	346,107	(393)
Parks and recreation	-	-	-	-	-
Grant income	20,500	(4,500)	16,000	45,146	29,146
Coal severance	117,000	(9,500)	107,500	111,672	4,172
Municipal road aid	2,000	(2,000)	-	-	-
Interest income	30	(30)	-	421	421
Other income	137,360	498,140	635,500	432,521	(202,979)
Total revenues	3,130,883	686,617	3,817,500	3,651,305	(166,195)
Expenditures					
General government	1,129,044	445,956	1,575,000	1,142,530	432,470
Police	478,800	98,200	577,000	616,951	(39,951)
Fire	280,012	(60,012)	220,000	213,077	6,923
Park	290,000	30,500	320,500	360,997	(40,497)
Streets	242,000	174,000	416,000	302,723	113,277
Sanitation	275,000	39,000	314,000	292,002	21,998
Social service	20,000	500	20,500	22,000	(1,500)
Capital outlay	10,000	(10,000)	-	-	-
Debt service	746,027	(21,527)	724,500	644,715	79,785
Total expenditures	3,470,883	696,617	4,167,500	3,594,995	572,505
Excess (deficiency) of revenues over (under) expenditures	(340,000)	(10,000)	(350,000)	56,310	406,310
Other financing sources (uses):					
Transfers out	(10,000)	10,000	-	(625,447)	(625,447)
Proceeds from debt	350,000	-	350,000	515,364	165,364
Total other financing sources (uses)	340,000	10,000	350,000	(110,083)	(460,083)
Net change in fund balances	-	-	-	(53,773)	(53,773)
Fund balance, beginning of year	-	-	-	533,948	533,948
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 480,175	\$ 480,175

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

CITY OF JACKSON, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND
ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Revisions	Revised Budget	Actual
Revenues				
Tourism tax	\$ -	\$ -	\$ -	\$ -
Insurance premium tax	-	-	-	-
Grant income	-	-	-	133,174
Coal severance	-	-	-	50,000
Municipal road aid	16,000	-	16,000	54,259
Interest income	-	-	-	52
Other income	-	-	-	-
Total revenues	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>237,485</u>
Expenditures				
Fire	-	-	-	-
Streets	16,000	-	16,000	23,770
Tourism	-	-	-	376,081
Parks	-	-	-	-
Social service	-	-	-	2,502
Capital outlay	-	-	-	166,196
Debt service	-	-	-	399,499
Total expenditures	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>968,048</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(730,563)</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>625,447</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>625,447</u>
Net change in fund balances	-	-	-	(105,116)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>377,553</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 272,437</u>

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

**CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a. Reporting Entity

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

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

b. Government-Wide and Fund Financial Statements

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

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

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

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources*

measurement focus and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major Governmental Fund:

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund is a major 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City Utility Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's Enterprise Funds, are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

d. Budgeting

Prior to June 30, the Mayor submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The proposed budget includes proposed operating and capital expenditures and the means of financing them. The Mayor is authorized to transfer

budgeted amounts within departments of any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the City Council. Therefore, the level of control on budgetary items is maintained at the department level. Management is of the opinion that its method of adopting the budget is in compliance with applicable regulations.

e. Investments

Investments are carried at cost. The investment policy allows the City to invest in those instruments authorized by KRS 66.480. The market values of investments in direct obligations of the United States at June 30, 2015, were not materially different than the carrying amounts.

f. Capital Assets and Depreciation

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Water and Sewer Systems	40-50 years
Equipment & Vehicles	3-10 years
Buildings	40 years
Infrastructure	20 years

The City is required by GASB 34 to prospectively report general infrastructure assets in the statement of net position.

g. Fund Balances

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

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

are reported only in the General Fund.

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

h. Statement of Cash Flows

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

i. Bond Issuance Costs

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

j. Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. New Accounting Pronouncements

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which requires employers participating in a multiple-employer cost-sharing plan to report net pension liability on the entity-wide statements for their proportionate share of the liability. See Note (10) for the effect of this adoption on beginning net position.

(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, 2015, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$592,482 and the bank balances totaled \$659,845. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$511,220 was covered by the Bank Insurance Fund and \$148,625 was secured by collateral held by the pledging bank in the City's name as of June 30, 2015.

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

(3) PROPERTY TAXES

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

The 2015 assessed value for real and tangible property was \$113,090,229. The tax rate adopted was \$.2596 and \$.2539 per \$100 valuation for real and tangible property, respectively.

(4) CAPITAL ASSETS

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

	June 30, 2014	Increases	Decreases	June 30, 2015
<i>Governmental Activities</i>				
Capital Assets, Not Depreciated:				
Land	\$ 383,000	\$ 132,000	\$ -	\$ 515,000
Capital Assets, Depreciated:				
City Hall	1,178,137	-	-	1,178,137
Administrative office & equipment	26,760	-	-	26,760
Infrastructure	220,822	145,199	-	366,021
Street equipment	234,983	30,038	-	265,021
Fire equipment & vehicles	1,277,871	-	-	1,277,871
Fire department buildings	776,431	-	-	776,431
Parks and recreation	3,883,519	20,997	-	3,904,516
Sanitation equipment	240,720	165,364	-	406,084
Police equipment & vehicles	331,503	28,000	-	359,503
Totals	<u>8,553,746</u>	<u>521,598</u>	<u>-</u>	<u>9,075,344</u>
Less: Accumulated Depreciation	<u>(4,998,724)</u>	<u>(283,983)</u>	<u>-</u>	<u>(5,282,707)</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,555,022</u>	<u>\$ 237,615</u>	<u>\$ -</u>	<u>\$ 3,792,637</u>
<i>Business-type Activities</i>				
Capital Assets, Not Depreciated:				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Construction in-progress	956,851	178,229	1,135,080	-
Capital Assets, Depreciated:				
Distribution plant and equipment	24,446,732	1,135,061	-	25,581,793
Machinery and equipment	1,773,981	16,200	-	1,790,181
Totals	<u>27,714,426</u>	<u>1,329,490</u>	<u>1,135,080</u>	<u>27,908,836</u>
Less: Accumulated Depreciation	<u>(10,472,844)</u>	<u>(710,329)</u>	<u>-</u>	<u>(11,183,173)</u>
Business-type Activities Capital Assets, Net	<u>\$ 17,241,582</u>	<u>\$ 619,161</u>	<u>\$ 1,135,080</u>	<u>\$ 16,725,663</u>

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

Governmental activities:	
General government	\$ 38,659
Police	52,313
Fire	23,444
Street	20,271
Sanitation	28,411
Park	109,544
Infrastructure	11,341
	<u>\$ 283,983</u>
Business-type activities:	
Utilities	<u>\$ 710,329</u>

(5) **LONG-TERM DEBT**

Business-Type Activities

Long-term debt of Proprietary Funds at June 30, 2015 consists of the following:

Bonds Payable:

\$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% 193,000

\$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% 21,000

\$2,217,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2006, payable in annual installments ranging from \$60,000 to \$120,000 through 2044, with interest paid semi-annually at 4.5% 1,933,500

\$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% 480,000

\$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% 112,300
2,739,800

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% 256,461

\$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% 801,670

\$465,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments through February, 2038, with interest at 3.125% 416,667

\$550,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments of \$3,324 through November, 2028, with interest at 3.0% 411,641
1,886,439

Installment Notes Payable:

\$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%	561,564
\$700,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority (“KIA”), payable in annual installments with interest paid semi-annually at 1.0%	615,789
\$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%	198,615
	<u>1,375,968</u>
Total long-term debt - proprietary funds	6,002,207
Less - current portion	(296,639)
	<u>\$ 5,705,568</u>

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 296,639	\$ 213,083	\$ 509,722
2017	304,741	204,060	508,801
2018	312,452	194,898	507,350
2019	292,877	184,188	477,065
2020	273,997	176,807	450,804
2021-2025	1,234,820	743,025	1,977,845
2026-2030	1,138,529	609,092	1,747,621
2031-2035	920,368	435,137	1,355,505
2036-2040	806,784	257,957	1,064,741
2041-2043	421,000	76,782	497,782
	<u>\$ 6,002,207</u>	<u>\$3,095,029</u>	<u>\$ 9,097,236</u>

Kentucky Infrastructure Authority – On March 1, 2014 the City obtained a loan from Kentucky Infrastructure Authority for an Infrastructure Revolving Loan in the amount of \$700,000 for sewer system rehabilitation. The City drew down \$700,000 of which \$70,000 has been forgiven for a balance outstanding of \$615,789 at June 30, 2015. The interest rate is fixed at 1.0%. The loan currently has no maturity date and it will be replaced with permanent financing at the completion of the sewer system rehabilitation project.

The revenue bonds require monthly deposits to the reserve account of approximately \$780 to attain a balance of \$91,720 as of June 30, 2015. The balance of this reserve at June 30, 2015 was \$23,079. The Kentucky Infrastructure Authority installment notes payable also require annual deposits to the reserve account of \$1,500 to attain a balance of \$15,000 as of June 30, 2015. The new KIA loan requires annual deposits to the reserve account of \$3,750 starting December 1, 2015 to attain a balance of \$37,500. The City had \$13,548 of KIA reserve funds at June 30, 2015.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2015:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>Governmental Activities</u>				
General obligation bonds – \$915,000 originally issued with interest rate of 2.0% with annual payments through June, 2019, secured by park assets and tourism tax	\$ 495,000	\$ -	\$ 95,000	\$ 400,000
Capital lease obligation with Kentucky League of Cities, \$3,385,000 with monthly payments through January, 2027, secured by general obligations	3,385,000	-	197,085	3,187,915
4.99% Capital lease obligation with a bank, \$143,620 with monthly payments of \$2,698 through August, 2015, secured by a 2009 Freightliner	5,363	-	5,363	-
6.00% Capital lease obligation with a bank, \$443,372 with monthly payments of \$14,882 through May, 2019, secured by a 2009 fire truck	251,972	-	44,766	207,206
Interest-free note payable to Breathitt County Health Department, \$42,000 due in annual installments of \$3,000 through July, 2026, parking lot	36,000	-	3,000	33,000
6.00% Note payable to a local bank, \$30,000 with quarterly payments of \$1,750 through August, 2016, secured by a Dodge Charger	11,839	-	7,000	4,839
6.49% Capital lease obligation with a bank, \$43,422 with monthly payments of \$882 through March, 2017, secured by a excavator	26,156	-	9,152	17,004
2.42% Capital lease obligation with a bank, \$165,364 with monthly payments of \$3,064 through august, 2019, secured by a freightliner	-	165,364	19,768	145,596
5.0% Tax anticipation notes payable with a bank, payment due June 30, 2015	125,000	350,000	475,000	-

FEMA Payable, due in quarterly payments of \$31,460 through December 31, 2015

127,291	-	127,291	-
<u>\$ 4,463,621</u>	<u>\$ 515,364</u>	<u>\$ 983,425</u>	<u>\$ 3,995,560</u>

<u>Business-type Activities</u>	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Notes payable	\$ 1,393,984	\$ 92,103	\$ 110,119	\$ 1,375,968
Capital lease obligation	1,978,454	-	92,015	1,886,439
Bonds payable	<u>2,831,400</u>	<u>-</u>	<u>91,600</u>	<u>2,739,800</u>
Total Business-type Activities	<u>\$ 6,203,838</u>	<u>\$ 92,103</u>	<u>\$ 293,734</u>	<u>\$ 6,002,207</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2015 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 445,609	\$ 115,425	\$ 561,034
2017	459,937	103,179	563,116
2018	464,591	91,071	555,662
2019	462,618	78,757	541,375
2020	303,562	68,341	371,903
2021-2025	1,562,910	204,555	1,767,465
2026-2028	296,333	12,042	308,375
	<u>\$ 3,995,560</u>	<u>\$ 673,370</u>	<u>\$ 4,668,930</u>

(6) LEGAL CONTINGENCIES

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

(7) RISK MANAGEMENT

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

(8) RETIREMENT

Plan description

Substantially all full-time employees of the City participate in the County Employees Retirement System ("CERS"). This system consists of two plans – *Nonhazardous* and *Hazardous*. Each plan is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed in nonhazardous or hazardous positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plans provide for retirement, disability and death benefits to plan members.

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 or at <https://kyret.ky.gov>.

Benefits provided

Benefits under the plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions

Funding for CERS is provided by members, who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 18.89% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The City's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the City's proportion was 0.052225%.

For the year ended June 30, 2015, the City recognized pension expense of \$136,000. At June 30, 2015, the City reported deferred outflows of resources for City contributions subsequent to the measurement date of \$235,240. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The City reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$189,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 37,800
2017	37,800
2018	37,800
2019	37,800
2020	37,800
	<u>\$ 189,000</u>

Actuarial Methods and Assumptions

The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years

Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed

investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 %, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	\$ 2,230,000	\$ 1,694,000	\$ 1,221,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan

At June 30, 2015, the City didn't have any payables to CERS.

(9) INTERFUND TRANSACTIONS

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 472,702
General Fund	Sewer Fund	42,704

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

(10) CHANGE IN ACCOUNTING PRINCIPLE

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position as previously reported at June 30, 2014	\$ 123,963	\$ 10,704,736	\$ 10,828,699
Prior period adjustment implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(1,377,268)	(654,690)	(2,031,958)
Deferred outflows District contributions made during fiscal year 2014	<u>193,145</u>	<u>91,813</u>	<u>284,958</u>
Total prior period adjustment for GASB 68	<u>(1,184,123)</u>	<u>(562,877)</u>	<u>(1,747,000)</u>
Net position as restated, June 30, 2014	<u>\$ (1,060,160)</u>	<u>\$ 10,141,859</u>	<u>\$ 9,081,699</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF JACKSON
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

		Reporting Fiscal Year (Measurement Date)
		2015 (2014)
City's proportion of the net pension liability		0.052225%
City's proportionate share of the net pension liability	\$	1,694,000
City's covered-employee payroll	\$	1,198,115
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		141.389%
Plan fiduciary net position as a percentage of the total pension liability		66.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CITY OF JACKSON
COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 235,239	\$ 226,324
Contributions in relation to the contractually required contribution	<u>235,239</u>	<u>226,324</u>
Contribution deficiency (excess)	-	-
City's covered-employee payroll	\$ 1,331,290	\$ 1,198,115
City's contributions as a percentage of its covered-employee payroll	17.67%	18.89%

Note: Schedule is intended to show information for the last 10 fiscal be displayed as they become available.

CITY OF JACKSON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

(1) CHANGES OF ASSUMPTIONS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	29 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes in benefit terms.

SUPPLEMENTARY INFORMATION

We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, 2015-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kelley Ballway Smith Goolsby, PSC

January 25, 2016
Ashland, Kentucky

**CITY OF JACKSON, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015**

2015-1 Payables and Receivables

Statement of Condition: The City maintains their financial records on a cash basis; therefore, we had several audit adjustments related to unrecorded accounts payable, accrued liabilities, and accounts receivable at June 30, 2015.

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

Cause of Condition: The City currently maintains its accounting records on the cash basis of accounting.

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

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

Management Response and Corrective Action Plan: The City currently maintains their records on the cash basis of accounting, but will continue to evaluate whether utilizing the receivable and payable functions within their software would be more beneficial.