

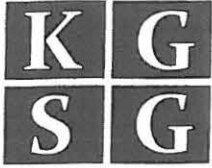
CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017, 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, 2017, 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 accordance with accounting principles generally accepted in the United States of America.

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 31-33 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 an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 other 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 provide any assurance.

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America 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 purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements and the schedule of expenditures of federal awards 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, 2018, 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 Holloway Smith Galsky, CSC

Ashland, Kentucky
January 25, 2018

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 90,070	\$ 28,083	\$ 118,153
Accounts receivable	32,209	259,420	291,629
Taxes receivable	1,104	-	1,104
Due from (to) other funds	515,406	(515,406)	-
Restricted assets -			
Cash and cash equivalents	169,025	70,305	239,330
Investments-debt reserve - KADD	136,181	-	136,181
Nondepreciable capital assets	515,000	1,391,515	1,906,515
Depreciable capital assets	8,799,369	27,378,658	36,178,027
Accumulated depreciation	(5,811,754)	(12,642,999)	(18,454,753)
 Total assets	 <u>4,446,610</u>	 <u>15,969,576</u>	 <u>20,416,186</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred savings from debt refunding	71,400	-	71,400
Deferred outflows - pension related	459,336	194,872	654,208
Total deferred outflow of resources	<u>530,736</u>	<u>194,872</u>	<u>725,608</u>
LIABILITIES			
Accounts payable	109,781	123,365	233,146
Other accrued liabilities	95,024	30,605	125,629
Current portion of long-term debt	464,591	312,452	777,043
Accrued interest payable	-	67,077	67,077
Customer deposits	-	213,085	213,085
Net pension liability	1,772,077	832,334	2,604,411
Long-term debt, net of current portion	2,625,427	5,738,374	8,363,801
 Total liabilities	 <u>5,066,900</u>	 <u>7,317,292</u>	 <u>12,384,192</u>
DEFERRED INFLOW OF RESOURCES			
Deferred inflows - pension related	103,880	44,071	147,951
NET POSITION			
Net investment in capital assets	483,997	10,076,348	10,560,345
Restricted	286,300	70,305	356,605
Unrestricted	(963,731)	(1,343,568)	(2,307,299)
 Total net position	 <u>\$ (193,434)</u>	 <u>\$ 8,803,085</u>	 <u>\$ 8,609,651</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, 2017**

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	\$ 807,143	\$ -	\$ 31,336	\$ -	\$ (775,807)	\$ -	\$ (775,807)
Police	759,302	10,002	6,827	-	(742,473)	-	(742,473)
Fire	240,919	-	-	-	(240,919)	-	(240,919)
Streets	379,754	-	43,918	-	(335,836)	-	(335,836)
Sanitation	318,561	402,024	-	-	83,463	-	83,463
Tourism	99,351	-	-	-	(99,351)	-	(99,351)
Parks	630,021	291,815	-	-	(338,206)	-	(338,206)
Social service	6,250	-	-	-	(6,250)	-	(6,250)
Infrastructure depreciation	18,601	-	-	-	(18,601)	-	(18,601)
Debt service	546,296	-	-	-	(546,296)	-	(546,296)
Total governmental activities	<u>3,806,198</u>	<u>703,841</u>	<u>82,081</u>	<u>-</u>	<u>(3,020,276)</u>	<u>-</u>	<u>(3,020,276)</u>
Business-Type Activities							
Water	1,934,441	1,394,236	-	347,097	-	(193,108)	(193,108)
Sewer	743,337	639,871	-	600	-	(102,866)	(102,866)
Total business-type activities	<u>2,677,778</u>	<u>2,034,107</u>	<u>-</u>	<u>347,697</u>	<u>-</u>	<u>(295,974)</u>	<u>(295,974)</u>
Total primary government	<u>\$ 6,483,976</u>	<u>\$ 2,737,948</u>	<u>\$ 82,081</u>	<u>\$ 347,697</u>	<u>\$ (3,020,276)</u>	<u>\$ (295,974)</u>	<u>\$ (3,316,250)</u>
General Revenues:							
Property and other local taxes					\$ 426,519	\$ -	\$ 426,519
Occupational license fees					1,553,044	-	1,553,044
Insurance premiums					351,871	-	351,871
Tourism tax					323,932	-	323,932
Coal/mineral severance & LGEA					19,599	-	19,599
Interest income					489	288	777
Other income					559,709	-	559,709
Total general revenues					<u>3,235,163</u>	<u>288</u>	<u>3,235,451</u>
Change in net position					<u>214,887</u>	<u>(295,686)</u>	<u>(80,799)</u>
Net position, June 30, 2016					<u>(408,321)</u>	<u>9,098,771</u>	<u>8,690,450</u>
Net position, June 30, 2017					<u>\$ (193,434)</u>	<u>\$ 8,803,085</u>	<u>\$ 8,609,651</u>

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

**CITY OF JACKSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 90,070	\$ -	\$ -	\$ 90,070
Fee receivable	32,209	-	-	32,209
Taxes receivable	1,104	-	-	1,104
Restricted-cash	-	129,648	39,377	169,025
Restricted-investments-debt service	136,181	-	-	136,181
Due from other funds	515,406	-	-	515,406
Total assets	\$ 774,970	\$ 129,648	\$ 39,377	\$ 943,995
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 90,875	\$ 18,906	\$ -	\$ 109,781
Accrued expenses	95,024	-	-	95,024
Total liabilities	185,899	18,906	-	204,805
Fund Balances:				
Restricted	136,181	110,742	39,377	286,300
Unassigned	452,890	-	-	452,890
Total fund balances	589,071	110,742	39,377	739,190
Total liabilities and fund balances	\$ 774,970	\$ 129,648	\$ 39,377	\$ 943,995

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, 2017

Total fund balance - total governmental funds		\$ 739,190
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets of \$9,314,369 net of accumulated depreciation of \$5,811,754 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		3,502,615
Savings from debt refunding are not available to pay current period expenditures and therefore are not reported in the governmental funds		71,400
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred differences in pension experience	7,983	
Deferred changes in pension assumptions	96,868	
Deferred pension investment earnings	171,911	
Deferred changes in proportionate share of liability	(36,416)	
Deferred pension contributions	<u>115,110</u>	355,456
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	(3,090,018)	
Net pension liability	<u>(1,772,077)</u>	<u>(4,862,095)</u>
Net position - governmental activities		<u>\$ (193,434)</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, 2017

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 332,823	\$ -	\$ -	\$ 332,823
Delinquent property taxes	9,470	-	-	9,470
Franchise taxes	46,918	-	-	46,918
Occupational license fees	1,553,044	-	-	1,553,044
Arrest fees, fines and forfeitures	-	-	10,002	10,002
Garbage collections	402,024	-	-	402,024
Tourism tax	323,932	-	-	323,932
Insurance premiums	351,871	-	-	351,871
Parks and recreation	-	-	291,815	291,815
Grant income	31,336	-	6,827	38,163
Coal/mineral severance & LGEA	19,599	-	-	19,599
Municipal road aid	25,560	18,358	-	43,918
Alcohol revenues	-	-	37,308	37,308
Interest income	435	54	-	489
Other income	542,940	35	16,734	559,709
Total revenues	<u>3,639,952</u>	<u>18,447</u>	<u>362,686</u>	<u>4,021,085</u>
Expenditures				
General government	735,856	-	-	735,856
Police	619,778	-	45,847	665,625
Fire	197,896	-	-	197,896
Streets	197,347	143,174	-	340,521
Sanitation	278,775	-	-	278,775
Tourism	-	99,351	-	99,351
Parks	242,944	-	275,949	518,893
Social service	6,250	-	-	6,250
Capital outlay	34,840	226,267	16,500	277,607
Debt service	890,741	457,092	-	1,347,833
Total expenditures	<u>3,204,427</u>	<u>925,884</u>	<u>338,296</u>	<u>4,468,607</u>
Excess (deficiency) of revenues over (under) expenditures	<u>435,525</u>	<u>(907,437)</u>	<u>24,390</u>	<u>(447,522)</u>
Other financing sources (uses):				
Transfer to other funds	(810,455)	-	-	(810,455)
Transfer from other funds	-	810,455	-	810,455
Proceeds from debt	350,000	-	-	350,000
Total other financing sources (uses)	<u>(460,455)</u>	<u>810,455</u>	<u>-</u>	<u>350,000</u>
Net change in fund balances	(24,930)	(96,982)	24,390	(97,522)
Fund balance, beginning of year	<u>614,001</u>	<u>207,724</u>	<u>14,987</u>	<u>836,712</u>
Fund balance, end of year	<u>\$ 589,071</u>	<u>\$ 110,742</u>	<u>\$ 39,377</u>	<u>\$ 739,190</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, 2017

Net change in fund balances - total governmental funds	\$	(97,522)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.</p>		
		(10,503)
<p>Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:</p>		
Capitalized savings from debt refunding amortization expense.		(8,400)
<p>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.</p>		
CERS contributions	8,016	
Pension expense	(136,641)	(128,625)
<p>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.</p>		
		(350,000)
<p>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.</p>		
		809,937
Change in net position of governmental activities	\$	214,887

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, 2017

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,278	\$ 24,805	\$ 28,083
Accounts receivable - utilities	170,980	88,440	259,420
Total current assets	<u>174,258</u>	<u>113,245</u>	<u>287,503</u>
Restricted Assets:			
Cash and cash equivalents	70,305	-	70,305
Total restricted assets	<u>70,305</u>	<u>-</u>	<u>70,305</u>
Capital Assets:			
Property, plant and equipment	19,757,705	9,012,468	28,770,173
Less: Accumulated depreciation	(8,104,560)	(4,538,439)	(12,642,999)
Total capital assets - net	<u>11,653,145</u>	<u>4,474,029</u>	<u>16,127,174</u>
Total assets	<u>11,897,708</u>	<u>4,587,274</u>	<u>16,484,982</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension contributions	140,667	54,205	194,872
Total deferred outflows of resources	<u>140,667</u>	<u>54,205</u>	<u>194,872</u>
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	85,702	37,663	123,365
Due to other funds	472,702	42,704	515,406
Accrued liabilities	25,591	5,014	30,605
Accrued interest payable	63,957	3,120	67,077
Current portion of debt	176,152	136,300	312,452
Total current liabilities (payable from current assets)	<u>824,104</u>	<u>224,801</u>	<u>1,048,905</u>
Current liabilities (payable from restricted assets):			
Customer deposits	213,085	-	213,085
Total current liabilities (payable from restricted assets)	<u>213,085</u>	<u>-</u>	<u>213,085</u>
Net pension liability	557,614	274,720	832,334
Long-term debt, net of current portion	4,189,668	1,548,706	5,738,374
Total liabilities	<u>5,784,471</u>	<u>2,048,227</u>	<u>7,832,698</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension investment earnings	31,812	12,259	44,071
Total deferred inflows of resources	<u>31,812</u>	<u>12,259</u>	<u>44,071</u>
NET POSITION			
Net investment in capital assets	7,287,325	2,789,023	10,076,348
Restricted	70,305	-	70,305
Unrestricted	<u>(1,135,538)</u>	<u>(208,030)</u>	<u>(1,343,568)</u>
Total net position	<u>\$ 6,222,092</u>	<u>\$ 2,580,993</u>	<u>\$ 8,803,085</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, 2017

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
OPERATING REVENUES			
Water sales	\$ 1,394,144	\$ -	\$ 1,394,144
Sewer service	-	625,291	625,291
Miscellaneous	92	14,580	14,672
Total operating revenues	<u>1,394,236</u>	<u>639,871</u>	<u>2,034,107</u>
OPERATING EXPENSES			
Personnel	459,060	175,406	634,466
Depreciation	527,020	198,735	725,755
Utilities	202,086	116,766	318,852
Supplies	337,273	58,684	395,957
Insurance	138,069	103,807	241,876
Contract labor	45,187	27,445	72,632
Sludge hauling	-	1,213	1,213
Miscellaneous	18,205	2,732	20,937
Total operating expenses	<u>1,726,900</u>	<u>684,788</u>	<u>2,411,688</u>
OPERATING LOSS	<u>(332,664)</u>	<u>(44,917)</u>	<u>(377,581)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	213	75	288
Grant income	337,877	-	337,877
Interest expense	(207,541)	(58,549)	(266,090)
Total non-operating revenues (expenses)	<u>130,549</u>	<u>(58,474)</u>	<u>72,075</u>
LOSS BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(202,115)</u>	<u>(103,391)</u>	<u>(305,506)</u>
CAPITAL CONTRIBUTIONS (TAPS)	<u>9,220</u>	<u>600</u>	<u>9,820</u>
DECREASE IN NET POSITION	(192,895)	(102,791)	(295,686)
NET POSITION, JUNE 30, 2016	<u>6,414,987</u>	<u>2,683,784</u>	<u>9,098,771</u>
NET POSITION, JUNE 30, 2017	<u>\$ 6,222,092</u>	<u>\$ 2,580,993</u>	<u>\$ 8,803,085</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, 2017**

	Business-Type Activities		Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,394,458	\$ 620,657	\$ 2,015,115
Cash payments to suppliers for goods and services	(714,464)	(288,583)	(1,003,047)
Cash payments to employees	(423,263)	(155,181)	(578,444)
Other operating revenues	92	14,580	14,672
Net cash provided by operating activities	<u>256,823</u>	<u>191,473</u>	<u>448,296</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Change in customer deposits	10,210	-	10,210
Net cash provided by non-capital financing activities	<u>10,210</u>	<u>-</u>	<u>10,210</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(170,939)	(133,802)	(304,741)
Interest paid on long-term debt	(208,046)	(60,582)	(268,628)
Issuance of debt	650,000	-	650,000
Purchase of property, plant & equipment	(862,806)	-	(862,806)
Capital grants	337,877	-	337,877
Capital contributions	9,220	600	9,820
Net cash used for capital and related financing activities	<u>(244,694)</u>	<u>(193,784)</u>	<u>(438,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	213	75	288
Net cash provided by investing activities	<u>213</u>	<u>75</u>	<u>288</u>
Net increase (decrease) in cash and cash equivalents	22,552	(2,236)	20,316
Cash and cash equivalents, June 30, 2016	<u>51,031</u>	<u>27,041</u>	<u>78,072</u>
Cash and cash equivalents, June 30, 2017	<u>\$ 73,583</u>	<u>\$ 24,805</u>	<u>\$ 98,388</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating loss	\$ (332,664)	\$ (44,917)	\$ (377,581)
Adjustments:			
Depreciation	527,020	198,735	725,755
Net pension adjustment	44,475	26,479	70,954
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	314	(4,634)	(4,320)
Increase (decrease) in accounts payable	26,356	22,064	48,420
Increase (decrease) in other accrued liabilities	(8,678)	(6,254)	(14,932)
Net cash provided by operating activities	<u>\$ 256,823</u>	<u>\$ 191,473</u>	<u>\$ 448,296</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, 2017

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 295,200	\$ 37,700	\$ 332,900	\$ 332,823	\$ (77)
Delinquent taxes	8,000	6,550	14,550	9,470	(5,080)
Franchise taxes	69,300	(22,300)	47,000	46,918	(82)
Occupational license fee	1,500,200	20,800	1,521,000	1,553,044	32,044
Garbage collections	350,000	52,000	402,000	402,024	24
Tourism tax	270,000	54,000	324,000	323,932	(68)
Insurance premium tax	310,000	42,000	352,000	351,871	(129)
Grant income	54,500	(41,100)	13,400	56,896	43,496
Coal severance	50,100	(32,100)	18,000	19,599	1,599
Interest income	-	-	-	435	435
Other income	703,000	(100,000)	603,000	542,940	(60,060)
Total revenues	3,610,300	17,550	3,627,850	3,639,952	12,102
Expenditures					
General government	1,132,502	113,398	1,245,900	735,856	510,044
Police	675,000	(48,300)	626,700	619,778	6,922
Fire	241,898	(54,898)	187,000	197,896	(10,896)
Park	284,400	(60,000)	224,400	242,944	(18,544)
Streets	227,500	(23,400)	204,100	197,347	6,753
Sanitation	237,000	5,000	242,000	278,775	(36,775)
Social service	15,000	(8,750)	6,250	6,250	-
Capital outlay	5,000	(5,000)	-	34,840	(34,840)
Debt service	780,000	111,500	891,500	890,741	759
Total expenditures	3,598,300	29,550	3,627,850	3,204,427	423,423
Excess (deficiency) of revenues over (under) expenditures	12,000	(12,000)	-	435,525	435,525
Other financing sources (uses):					
Transfers out	(12,000)	12,000	-	(810,455)	(810,455)
Proceeds from debt	-	-	-	350,000	350,000
Total other financing sources (uses)	(12,000)	12,000	-	(460,455)	(460,455)
Net change in fund balances	-	-	-	(24,930)	(24,930)
Fund balance, beginning of year	-	-	-	614,001	614,001
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 589,071	\$ 589,071

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, 2017

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Tourism tax	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance premium tax	-	-	-	-	-
Grant income	-	-	-	-	-
Coal severance	-	-	-	-	-
Municipal road aid	16,000	-	16,000	18,358	2,358
Interest income	-	-	-	54	54
Other income	-	-	-	35	35
Total revenues	16,000	-	16,000	18,447	2,447
Expenditures					
Fire	-	-	-	-	-
Streets	16,000	-	16,000	143,174	(127,174)
Tourism	-	-	-	99,351	(99,351)
Parks	-	-	-	-	-
Social service	-	-	-	-	-
Capital outlay	-	-	-	226,267	(226,267)
Debt service	-	-	-	457,092	(457,092)
Total expenditures	16,000	-	16,000	925,884	(909,884)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(907,437)	(907,437)
Other financing sources (uses):					
Transfers in	-	-	-	810,455	810,455
Total other financing sources (uses)	-	-	-	810,455	810,455
Net change in fund balances	-	-	-	(96,982)	(96,982)
Fund balance, beginning of year	-	-	-	207,724	207,724
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,742</u>	<u>\$ 110,742</u>

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

**CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

(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*.

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 Funds:

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 Funds:

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

Sewer Fund - The Sewer Fund is used to account for 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, 2017, 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 capitalized 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. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Activities will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

k. 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.

l. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Material estimates that are particularly susceptible to significant changes relate to the determination of the allowance for uncollectible accounts and the useful lives used to depreciate capital assets, and actuarial assumptions used in determining pension costs. Actual results could differ from estimated amounts.

m. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers or as reimbursements of expenses, when applicable.

n. Interfund Receivables (Payables)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds."

o. New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 75”). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (“OPEB”). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the City beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* (“GASB 82”). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. The adoption of this standard did not have a material effect on the City’s financial statements.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (“GASB 84”). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the City beginning with its year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (“GASB 85”), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and “negative” goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 will be effective for the City beginning with its year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (“GASB 86”), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. GASB 86 will be effective for the City beginning with its year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB 87”), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the City beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

(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, 2017, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$493,664 and the bank balances totaled \$689,211. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$550,524 was covered by the Bank Insurance Fund as of June 30, 2017 and the remainder was collateralized by pledge securities.

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, 2004, and 2016. 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 2017 assessed value for real and tangible property was \$120,569,324. The tax rate adopted was \$.274 and \$.2868 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, 2016	Increases	Decreases	June 30, 2017
<u>Governmental Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 515,000	\$ -	\$ -	\$ 515,000
Capital Assets, Depreciated:				
City Hall	1,178,137	-	-	1,178,137
Administrative office & equipment	26,760	-	-	26,760
Infrastructure	366,021	-	-	366,021
Street equipment	261,121	-	-	261,121
Fire equipment & vehicles	1,251,006	236,000	-	1,487,006
Fire department buildings	776,431	-	-	776,431
Parks and recreation	3,904,516	16,500	-	3,921,016
Sanitation equipment	406,084	-	-	406,084
Police equipment & vehicles	351,686	25,107	-	376,793
Totals	9,036,762	277,607	-	9,314,369
Less: Accumulated Depreciation	(5,523,644)	(288,110)	-	(5,811,754)
Governmental Activities				
Capital Assets, Net	\$ 3,513,118	\$ (10,503)	\$ -	\$ 3,502,615
<u>Business-type Activities</u>				
Capital Assets, Not Depreciated:				
Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Construction in progress	-	854,653	-	854,653
Capital Assets, Depreciated:				
Distribution plant and equipment	25,581,665	-	-	25,581,665
Machinery and equipment	1,790,181	6,812	-	1,796,993
Totals	27,908,708	861,465	-	28,770,173
Less: Accumulated Depreciation	(11,917,244)	(725,755)	-	(12,642,999)
Business-type Activities				
Capital Assets, Net	\$ 15,991,464	\$ (135,710)	\$ -	\$ 16,127,174

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

Governmental activities:	
General government	\$ 28,627
Police	55,088
Fire	31,550
Street	19,492
Sanitation	23,624
Park	111,128
Infrastructure	18,601
	<u>\$ 288,110</u>
Business-type activities:	
Water	\$ 527,020
Sewer	198,735
	<u>\$ 725,755</u>

(5) **LONG-TERM DEBT**

Business-Type Activities

Long-term debt of Proprietary Funds at June 30, 2017 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%	121,000
\$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%	15,000
\$2,217,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2004, payable in annual installments ranging from \$60,000 to \$120,000 through 2044, with interest paid semi-annually at 4.5%	1,860,000
\$550,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2004B, payable in annual installments ranging from \$10,000 to \$30,000 through 2044, with interest paid semi-annually at 4.5%	461,500
\$650,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 2016, payable in annual installments ranging from \$11,500 to \$24,500 through 2056, with interest paid semi-annually at 2.0%	650,000

\$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%	106,800
	<u>3,214,300</u>
<u>Capital Lease Obligation:</u>	
\$450,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments of \$3,514 through November, 2022, with interest at 3.82%	194,973
\$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%	761,670
\$465,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments through February, 2038, with interest at 3.125%	376,667
\$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%	362,391
	<u>1,695,701</u>
<u>Installment Notes Payable:</u>	
\$1,500,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments in the amount of \$39,789 through 2030 with interest paid semi-annually at 1.0%	496,171
\$700,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments with interest paid semi-annually at 1.0%	558,000
\$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%	86,654
	<u>1,140,825</u>
Total long-term debt - proprietary funds	6,050,826
Less - current portion	(312,452)
	<u>\$ 5,738,374</u>

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

Year Ending June 30,	Principal	Interest	Total
2018	\$ 312,452	\$ 194,898	\$ 507,350
2019	304,377	208,838	513,215
2020	285,497	189,577	475,074

2021	252,190	181,213	433,403
2022	348,522	172,829	521,351
2023-2027	1,182,354	727,620	1,909,974
2028-2032	1,157,518	592,226	1,749,744
2033-2037	902,633	415,468	1,318,101
2038-2042	858,283	226,880	1,085,163
2043-2047	244,000	46,312	290,312
2048-2052	108,000	16,060	124,060
2053-2056	95,000	4,800	99,800
	<u>\$ 6,050,826</u>	<u>\$2,976,721</u>	<u>\$ 9,027,547</u>

The revenue bonds require annual deposits to the reserve account of approximately \$21,940 to attain a balance of \$224,860 as of June 30, 2017. The balance of this reserve at June 30, 2017 was \$33,672. The 2013 KIA loan requires annual deposits to the reserve account of \$1,750 starting December 1, 2016 to attain a balance of \$17,500. The 2010 KIA loan requires annual deposits to the reserve account of \$3,750 starting December 1, 2011 to attain a balance of \$37,500. The City had \$17,546 of KIA reserve funds at June 30, 2017.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</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	\$ 305,000	\$ -	\$ 100,000	\$ 205,000
Capital lease obligation with Kentucky League of Cities, \$3,385,000 with monthly payments through January, 2027, secured by general obligations	2,936,665	-	264,169	2,672,496
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	159,071	-	51,088	107,983
Interest-free note payable to Breathitt County Health Department, \$42,000 due in annual installments of \$3,000 through July, 2026, parking lot	30,000	-	3,000	27,000
6.49% Capital lease obligation with a bank, \$43,422 with monthly payments of \$882 through March, 2017, secured by an excavator	7,240	-	7,240	-

2.42% Capital lease obligation with a bank, \$165,364 with monthly payments of \$3,064 through august, 2019, secured by a freightliner

	111,979	-	34,440	77,539
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5.0% Tax anticipation notes payable with a bank, payment due June 30, 2017

	-	350,000	350,000	-
	<u>\$ 3,549,955</u>	<u>\$ 350,000</u>	<u>\$ 809,937</u>	<u>\$ 3,090,018</u>

<u>Business-type Activities</u>	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Notes payable	\$ 1,259,207	\$ -	\$ 118,382	\$ 1,140,825
Capital lease obligation	1,792,260	-	96,559	1,695,701
Bonds payable	<u>2,654,100</u>	<u>650,000</u>	<u>89,800</u>	<u>3,214,300</u>
Total Business-type Activities	<u>\$ 5,705,567</u>	<u>\$ 650,000</u>	<u>\$ 304,741</u>	<u>\$ 6,050,826</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2017 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 464,591	\$ 91,071	\$ 555,662
2019	462,618	78,757	541,375
2020	303,562	68,341	371,903
2021	292,165	60,292	352,457
2022	300,080	50,894	350,974
2023-2027	<u>1,267,002</u>	<u>105,407</u>	<u>1,372,409</u>
	<u>\$ 3,090,018</u>	<u>\$ 454,762</u>	<u>\$ 3,544,780</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 affect 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

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the City participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan 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 plan. The plan provides 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 plan 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 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2017, employers were required to contribute 18.68% (13.95% - pension, 4.73% insurance) of the member's salary. During the year ending June 30, 2017, the City contributed \$163,945 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

Plan description: CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Funding policy: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

Contributions: The City's total payroll for employees covered under CERS for the years ending June 30, 2017, 2016, and 2015 was \$1,175,233, \$1,261,812 and \$1,331,290, respectively. The City's contributions to CERS for the years ending June 30, 2017, 2016, and 2015 were \$55,589, \$58,548, and \$65,499, respectively, and equaled the actually required contributions for the year.

Funded status: The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

Total medical benefit obligation	<u>000's omitted</u>
Net position available for benefits at actuarial value	\$ 2,988,121
Unfunded medical benefit obligation	<u>(2,079,811)</u>
	<u>\$ 908,310</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 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, 2016. At June 30 2016, the City's proportion was 0.052896%.

For the year ended June 30, 2017, the City recognized pension expense of \$199,579. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected actual experience	\$ 11,370	\$ -
Changes of assumptions	137,968	-
Net difference between projected and actual earnings on investments	244,841	-
Changes in proportion and differences between City contributions and proportionate share of contributions	96,084	147,951
City contributions subsequent to the measurement date	163,945	-
	<u>\$ 654,208</u>	<u>\$ 147,951</u>

The \$163,945 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	
2018	\$ 131,863
2019	83,404
2020	72,650
2021	54,395
	<u>\$ 342,312</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible

future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. 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 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>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. 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 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 3,245,518	\$ 2,604,411	\$ 2,054,855

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, 2017, there was \$23,574 in payables to CERS.

(9) INTERFUND TRANSACTIONS

Due to/from other funds:

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

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

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, 2017**

	Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)		Reporting Fiscal Year (Measurement Date)
	2017 (2016)		2016 (2015)		2015 (2014)
City's proportion of the net pension liability	0.052896%		0.058417%		0.052225%
City's proportionate share of the net pension liability	\$ 2,604,411	\$	2,511,669	\$	1,694,000
City's covered-employee payroll	\$ 1,261,812	\$	1,331,290	\$	1,198,115
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.403%		188.664%		141.389%
Plan fiduciary net position as a percentage of the total pension liability	55.50%		59.97%		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, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 163,945	\$ 156,717	\$ 169,739	\$ 164,621
Contributions in relation to the contractually required contribution	<u>163,945</u>	<u>156,717</u>	<u>169,739</u>	<u>164,621</u>
Contribution deficiency (excess)	-	-	-	-
City's covered-employee payroll	\$ 1,175,233	\$ 1,261,812	\$ 1,331,290	\$ 1,198,115
City's contributions as a percentage of its covered-employee payroll	13.95%	12.42%	12.75%	13.74%

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

CITY OF JACKSON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

(1) CHANGES OF ASSUMPTIONS

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2017 and 2016, determined as of July 1, 2015. 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 contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for CERS.

SUPPLEMENTARY INFORMATION

**CITY OF JACKSON, KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017**

	<u>Park</u>	<u>Shop With A Cop</u>	<u>ABC Account</u>	<u>Police Grants</u>	<u>Total Governmental Funds</u>
Assets					
Cash	\$ 10,353	\$ 10,615	\$ 14,868	\$ 3,541	\$ 39,377
Total assets	<u>\$ 10,353</u>	<u>\$ 10,615</u>	<u>\$ 14,868</u>	<u>\$ 3,541</u>	<u>\$ 39,377</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted	10,353	10,615	14,868	3,541	39,377
Total fund balances	<u>10,353</u>	<u>10,615</u>	<u>14,868</u>	<u>3,541</u>	<u>39,377</u>
Total liabilities and fund balances	<u>\$ 10,353</u>	<u>\$ 10,615</u>	<u>\$ 14,868</u>	<u>\$ 3,541</u>	<u>\$ 39,377</u>

CITY OF JACKSON, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Park	Shop With A Cop	ABC Account	Police Grants	Total Governmental Funds
Revenues					
Arrest fees, fines and forfeitures	\$ -	\$ -	\$ -	\$ 10,002	\$ 10,002
Parks and recreation	291,815	-	-	-	291,815
Grant income	-	-	-	6,827	6,827
Alcohol revenue	-	-	37,308	-	37,308
Other income	-	16,734	-	-	16,734
Total revenues	<u>291,815</u>	<u>16,734</u>	<u>37,308</u>	<u>16,829</u>	<u>362,686</u>
Expenditures					
Police	-	6,119	22,440	17,288	45,847
Parks	275,949	-	-	-	275,949
Capital outlay	16,500	-	-	-	16,500
Debt service	-	-	-	-	-
Total expenditures	<u>292,449</u>	<u>6,119</u>	<u>22,440</u>	<u>17,288</u>	<u>338,296</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(634)</u>	<u>10,615</u>	<u>14,868</u>	<u>(459)</u>	<u>24,390</u>
Other financing sources (uses):					
Transfer from other funds	-	-	-	-	-
Proceeds from debt	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(634)	10,615	14,868	(459)	24,390
Fund balance, beginning of year	<u>10,987</u>	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>14,987</u>
Fund balance, end of year	<u>\$ 10,353</u>	<u>\$ 10,615</u>	<u>\$ 14,868</u>	<u>\$ 3,541</u>	<u>\$ 39,377</u>

CITY OF JACKSON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grant Number	Passed Through to Subrecipients	Expenditures
<u>Appalachian Regional Commission</u>				
Passed Through the Rural Development -				
Appalachian Regional Commission	23.002	Hwy 15 Water Imp.	\$ -	\$ 204,653
ECWAG - Appalachian Regional Commission	23.002	WTP Repairs Project	-	133,224
Total Appalachian Regional Commission			-	337,877
<u>U.S. Department of Transportation</u>				
Passed Through the Kentucky Office of Highway Safety -				
State and Community Highway Safety	20.205	OP-17-07	-	4,344
Total U.S. Department of Transportation			-	4,344
<u>U. S. Department of Agriculture-Rural Development</u>				
Passed Through the Rural Development -				
Water and Waste Disposal Systems for Rural Communities	10.760	Hwy 15 Water Imp.	-	650,000 *
Total Department of Agriculture			-	650,000
Total Expenditures of Federal Awards			\$ -	\$ 992,221

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Jackson under the programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Ashland Independent School City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State and Local Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein, certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The City of Jackson has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D - OUTSTANDING LOAN

The City of Jackson received a loan from the Department of Agriculture under the Water and Waste Disposal Systems for Rural Communities program during the year ended June 30, 2017. The loan balance outstanding at June 30, 2017 was \$650,000.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses to be material weaknesses, 2017-001 and 2017-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 other 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 responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kelley Galloway Smith Hooley, PSC

Ashland, Kentucky
January 25, 2018



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Jackson's (the "City") compliance with the types of compliance requirements described in the *OMB 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, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
January 25, 2018

CITY OF JACKSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

Noncompliance material to the financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified?

Yes None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

Identification of Major Programs:

Water and Waste Disposal Systems for Rural Communities

CFDA No.
10.760

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low risk auditee?

Yes No

CITY OF JACKSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

B. FINANCIAL STATEMENT FINDINGS

2017-001 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, 2017.

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.

2017-002 BANK RECONCILIATIONS

Condition: We noted several bank reconciliations that did not agree to the general ledger and/or contained old outstanding items listed, some that had already cleared the bank.

Criteria: Performing timely and accurate bank reconciliations provide for more accurate financial statements.

Cause: Personnel do not investigate outages or old outstanding items enough.

Effect: Inaccurate bank reconciliations.

CITY OF JACKSON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2017

Recommendation: We recommend that any bank reconciliation outages be investigated until found each month. Also, any outstanding items that have been outstanding for more than 90 days should be investigated further. In addition, the Mayor should start reviewing and initialing all bank reconciliations to ensure that they are being done properly.

Management's Response: The City will make every effort to reconcile bank statements in a timely fashion and follow-up on old outstanding items.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted in current year.

CITY OF JACKSON
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	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, 2017.	June 30, 2018	Rose Wolfe, Mayor
2017-002	We noted several bank reconciliations that did not agree to the general ledger and/or contained old outstanding items listed, some that had already cleared the bank.	June 30, 2018	Rose Wolfe, Mayor

CITY OF JACKSON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2017

Findings

2016-001

Findings/Noncompliance

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.

Status: This was repeated as 2017-001 in the current year.