

CITY OF JACKSON, KENTUCKY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019, 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, 2019, 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 and OPEB Liability and the Schedule of Pension and OPEB Contributions on pages 34-37 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 with 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 combining statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's 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 Ballaway Smith Goolsby, PSC

Ashland, Kentucky

February 14, 2020

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 135,012	\$ 51,707	\$ 186,719
Grants receivable	-	98,520	98,520
Accounts receivable	31,641	317,750	349,391
Taxes receivable	10,090	-	10,090
Due from (to) other funds	515,406	(515,406)	-
Restricted assets -			
Cash and cash equivalents	429,280	103,190	532,470
Investments-debt reserve - KADD	138,061	-	138,061
Nondepreciable capital assets	515,000	1,723,788	2,238,788
Depreciable capital assets	8,937,445	28,992,590	37,930,035
Accumulated depreciation	(6,415,972)	(14,137,412)	(20,553,384)
	<u>4,295,963</u>	<u>16,634,727</u>	<u>20,930,690</u>
Total assets			
DEFERRED OUTFLOW OF RESOURCES			
Deferred savings from debt refunding	54,600	-	54,600
Deferred outflows - pension related	417,450	166,244	583,694
Deferred outflows - OPEB related	167,800	66,825	234,625
Total deferred outflow of resources	<u>639,850</u>	<u>233,069</u>	<u>872,919</u>
LIABILITIES			
Accounts payable	47,334	107,540	154,874
Other accrued liabilities	93,869	24,350	118,219
Current portion of long-term debt	291,190	412,479	703,669
Accrued interest payable	-	63,004	63,004
Customer deposits	-	218,756	218,756
Long-term debt, net of current portion	1,859,247	5,462,534	7,321,781
Accrued compensated absences, noncurrent	135,450	68,993	204,443
Net pension liability, due in more than one year	2,032,458	809,400	2,841,858
Net OPEB liability, due in more than one year	592,501	235,956	828,457
	<u>5,052,049</u>	<u>7,403,012</u>	<u>12,455,061</u>
Total liabilities			
DEFERRED INFLOW OF RESOURCES			
Deferred inflows - pension related	184,542	73,492	258,034
Deferred inflows - OPEB related	143,586	57,181	200,767
	<u>328,128</u>	<u>130,673</u>	<u>458,801</u>
NET POSITION			
Net investment in capital assets	2,207,382	10,703,953	12,911,335
Restricted	567,341	103,190	670,531
Unrestricted	(3,219,087)	(1,473,032)	(4,692,119)
	<u>\$ (444,364)</u>	<u>\$ 9,334,111</u>	<u>\$ 8,889,747</u>
Total net position			

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, 2019**

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	\$ 1,373,019	\$ -	\$ -	\$ -	\$ (1,373,019)	\$ -	\$ (1,373,019)
Police	854,564	7,055	107,147	-	(740,362)	-	(740,362)
Fire	382,408	-	-	-	(382,408)	-	(382,408)
Streets	497,746	-	283,663	-	(214,083)	-	(214,083)
Sanitation	296,880	386,152	-	-	89,272	-	89,272
Tourism	34,000	-	-	-	(34,000)	-	(34,000)
Parks	421,446	72,914	-	-	(348,532)	-	(348,532)
Social service	-	-	-	-	-	-	-
Infrastructure depreciation	18,601	-	-	-	(18,601)	-	(18,601)
Debt service	(57,762)	-	-	-	57,762	-	57,762
Total governmental activities	<u>3,820,902</u>	<u>466,121</u>	<u>390,810</u>	<u>-</u>	<u>(2,963,971)</u>	<u>-</u>	<u>(2,963,971)</u>
Business-Type Activities							
Water	2,118,817	1,630,235	-	104,915	-	(383,667)	(383,667)
Sewer	692,232	726,319	-	439,140	-	473,227	473,227
Total business-type activities	<u>2,811,049</u>	<u>2,356,554</u>	<u>-</u>	<u>544,055</u>	<u>-</u>	<u>89,560</u>	<u>89,560</u>
Total primary government	<u>\$ 6,631,951</u>	<u>\$ 2,822,675</u>	<u>\$ 390,810</u>	<u>\$ 544,055</u>	<u>\$ (2,963,971)</u>	<u>\$ 89,560</u>	<u>\$ (2,874,411)</u>
General Revenues:							
Property and other local taxes					\$ 491,118	\$ -	\$ 491,118
Occupational license fees					1,485,619	-	1,485,619
Insurance premiums					354,415	-	354,415
Tourism tax					365,172	-	365,172
Coal/mineral severance & LGEA					10,510	-	10,510
Interest income					707	530	1,237
Other income					370,643	-	370,643
Total general revenues					<u>3,078,184</u>	<u>530</u>	<u>3,078,714</u>
Change in net position					<u>114,213</u>	<u>90,090</u>	<u>204,303</u>
Net position, June 30, 2018					<u>(558,577)</u>	<u>9,244,021</u>	<u>8,685,444</u>
Net position, June 30, 2019					<u>\$ (444,364)</u>	<u>\$ 9,334,111</u>	<u>\$ 8,889,747</u>

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

CITY OF JACKSON, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 135,012	\$ -	\$ -	\$ 135,012
Fee receivable	31,641	-	-	31,641
Taxes receivable	10,090	-	-	10,090
Restricted-cash	-	357,362	71,918	429,280
Restricted-investments-debt service	138,061	-	-	138,061
Due from other funds	515,406	-	-	515,406
Total assets	<u>\$ 830,210</u>	<u>\$ 357,362</u>	<u>\$ 71,918</u>	<u>\$ 1,259,490</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 47,334	\$ -	\$ -	\$ 47,334
Accrued expenses	93,869	-	-	93,869
Total liabilities	<u>141,203</u>	<u>-</u>	<u>-</u>	<u>141,203</u>
Fund Balances:				
Restricted	138,061	357,362	71,918	567,341
Unassigned	550,946	-	-	550,946
Total fund balances	<u>689,007</u>	<u>357,362</u>	<u>71,918</u>	<u>1,118,287</u>
Total liabilities and fund balances	<u>\$ 830,210</u>	<u>\$ 357,362</u>	<u>\$ 71,918</u>	<u>\$ 1,259,490</u>

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, 2019

Total fund balance - total governmental funds	\$ 1,118,287
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$9,452,445 net of accumulated depreciation of \$6,415,972 used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,036,473
Savings from debt refunding are not available to pay current period expenditures and therefore are not reported in the governmental funds	54,600
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds	257,122
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	(2,150,437)
Accrued compensated absences	(135,450)
Net pension liability	(2,032,458)
Net OPEB liability	(592,501)
	<u>(4,910,846)</u>
Net position - governmental activities	<u>\$ (444,364)</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, 2019

	General	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 323,338	\$ -	\$ -	\$ 323,338
Delinquent property taxes	23,787	-	-	23,787
Franchise taxes	58,405	-	-	58,405
Occupational license fees	1,485,619	-	-	1,485,619
Arrest fees, fines and forfeitures	-	-	7,055	7,055
Garbage collections	386,152	-	-	386,152
Tourism tax	317,531	47,641	-	365,172
Insurance premiums	354,415	-	-	354,415
Parks and recreation	-	-	72,914	72,914
Grant income	-	213,336	107,147	320,483
Coal/mineral severance & LGEA	10,510	-	-	10,510
Municipal road aid	44,202	26,125	-	70,327
Alcohol revenues	-	-	85,588	85,588
Interest income	644	63	-	707
Other income	244,715	103,858	22,070	370,643
Total revenues	<u>3,249,318</u>	<u>391,023</u>	<u>294,774</u>	<u>3,935,115</u>
Expenditures				
General government	1,012,809	-	-	1,012,809
Police	715,392	-	97,365	812,757
Fire	221,663	96,759	-	318,422
Streets	90,734	391,488	-	482,222
Sanitation	273,257	-	-	273,257
Tourism	-	34,000	-	34,000
Parks	242,209	-	71,026	313,235
Social service	-	-	-	-
Capital outlay	-	-	100,587	100,587
Debt service	892,828	-	-	892,828
Total expenditures	<u>3,448,892</u>	<u>522,247</u>	<u>268,978</u>	<u>4,240,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(199,574)</u>	<u>(131,224)</u>	<u>25,796</u>	<u>(305,002)</u>
Other financing sources (uses):				
Transfer to other funds	(201,810)	-	-	(201,810)
Transfer from other funds	-	201,810	-	201,810
Proceeds from debt	484,000	-	-	484,000
Total other financing sources (uses)	<u>282,190</u>	<u>201,810</u>	<u>-</u>	<u>484,000</u>
Net change in fund balances	82,616	70,586	25,796	178,998
Fund balance, beginning of year	<u>606,391</u>	<u>286,776</u>	<u>46,122</u>	<u>939,289</u>
Fund balance, end of year	<u>\$ 689,007</u>	<u>\$ 357,362</u>	<u>\$ 71,918</u>	<u>\$ 1,118,287</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, 2019

Net change in fund balances - total governmental funds		\$ 178,998
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.		(199,588)
Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:		
Capitalized savings from debt refunding amortization expense.		(8,400)
Accrued compensated absences		(135,450)
Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.		
CERS contributions	41,955	
Pension expense	<u>(238,292)</u>	(196,337)
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.		(484,000)
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.		<u>958,990</u>
Change in net position of governmental activities		<u>\$ 114,213</u>

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

CITY OF JACKSON, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 33,577	\$ 18,130	\$ 51,707
Grant receivable	98,520	-	98,520
Accounts receivable - utilities	221,952	95,798	317,750
Total current assets	354,049	113,928	467,977
Restricted Assets:			
Cash and cash equivalents	80,737	22,453	103,190
Total restricted assets	80,737	22,453	103,190
Capital Assets:			
Property, plant and equipment	20,478,601	10,237,777	30,716,378
Less: Accumulated depreciation	(9,197,513)	(4,939,899)	(14,137,412)
Total capital assets - net	11,281,088	5,297,878	16,578,966
Total assets	11,715,874	5,434,259	17,150,133
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension related	129,807	36,437	166,244
Deferred OPEB related	52,178	14,647	66,825
Total deferred outflows of resources	181,985	51,084	233,069
LIABILITIES			
Current liabilities (payable from current assets):			
Accounts payable	71,698	35,842	107,540
Due to other funds	472,702	42,704	515,406
Accrued liabilities	20,098	4,252	24,350
Accrued interest payable	60,572	2,432	63,004
Current portion of debt	300,728	111,751	412,479
Total current liabilities (payable from current assets)	925,798	196,981	1,122,779
Current liabilities (payable from restricted assets):			
Customer deposits	218,756	-	218,756
Total current liabilities (payable from restricted assets)	218,756	-	218,756
Long-term debt, net of current portion	3,798,263	1,664,271	5,462,534
Accrued compensated absences	65,464	3,529	68,993
Net pension liability	631,997	177,403	809,400
Net OPEB liability	184,239	51,717	235,956
Total liabilities	5,824,517	2,093,901	7,918,418
DEFERRED INFLOWS OF RESOURCES			
Deferred pension related	57,384	16,108	73,492
Deferred OPEB related	44,648	12,533	57,181
Total deferred inflows of resources	102,032	28,641	130,673
NET POSITION			
Net investment in capital assets	7,182,097	3,521,856	10,703,953
Restricted	80,737	22,453	103,190
Unrestricted	(1,291,524)	(181,508)	(1,473,032)
Total net position	\$ 5,971,310	\$ 3,362,801	\$ 9,334,111

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, 2019

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Water sales	\$ 1,615,093	\$ -	\$ 1,615,093
Sewer service	-	718,526	718,526
Miscellaneous	15,142	7,793	22,935
Total operating revenues	1,630,235	726,319	2,356,554
OPERATING EXPENSES			
Personnel	597,800	39,341	637,141
Depreciation	567,843	203,935	771,778
Utilities	193,024	99,875	292,899
Supplies	363,485	124,750	488,235
Insurance	129,790	103,127	232,917
Contract labor	40,751	33,717	74,468
Sludge hauling	-	2,357	2,357
Miscellaneous	73,322	6,908	80,230
Total operating expenses	1,966,015	614,010	2,580,025
OPERATING INCOME (LOSS)	(335,780)	112,309	(223,471)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	459	71	530
Grant income	98,520	439,140	537,660
Interest expense	(152,802)	(78,222)	(231,024)
Total non-operating revenues (expenses)	(53,823)	360,989	307,166
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL CONTRIBUTIONS	(389,603)	473,298	83,695
CAPITAL CONTRIBUTIONS (TAPS)	6,395	-	6,395
INCREASE (DECREASE) IN NET POSITION	(383,208)	473,298	90,090
NET POSITION, JUNE 30, 2018	6,354,518	2,889,503	9,244,021
NET POSITION, JUNE 30, 2019	\$ 5,971,310	\$ 3,362,801	\$ 9,334,111

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, 2019

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,595,252	\$ 716,582	\$ 2,311,834
Cash payments to suppliers for goods and services	(799,737)	(422,640)	(1,222,377)
Cash payments to employees	(484,170)	(139,326)	(623,496)
Other operating revenues	15,142	7,793	22,935
Net cash provided by operating activities	<u>326,487</u>	<u>162,409</u>	<u>488,896</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Change in customer deposits	<u>(1,275)</u>	<u>-</u>	<u>(1,275)</u>
Net cash used for non-capital financing activities	<u>(1,275)</u>	<u>-</u>	<u>(1,275)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(192,838)	(288,116)	(480,954)
Interest paid on long-term debt	(154,541)	(76,839)	(231,380)
Issuance of debt	102,161	337,480	439,641
Purchase of property, plant & equipment	(98,520)	(608,759)	(707,279)
Capital grants	-	439,140	439,140
Capital contributions	6,395	-	6,395
Net cash used for capital and related financing activities	<u>(337,343)</u>	<u>(197,094)</u>	<u>(534,437)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	<u>459</u>	<u>71</u>	<u>530</u>
Net cash provided by investing activities	<u>459</u>	<u>71</u>	<u>530</u>
Net increase (decrease) in cash and cash equivalents	(11,672)	(34,614)	(46,286)
Cash and cash equivalents, June 30, 2018	<u>125,986</u>	<u>75,197</u>	<u>201,183</u>
Cash and cash equivalents, June 30, 2019	<u>\$ 114,314</u>	<u>\$ 40,583</u>	<u>\$ 154,897</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (335,780)	\$ 112,309	\$ (223,471)
Adjustments:			
Depreciation	567,843	203,935	771,778
Net pension adjustment	58,736	(103,408)	(44,672)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(19,841)	(1,944)	(21,785)
Increase (decrease) in accounts payable	635	(51,906)	(51,271)
Increase (decrease) in other accrued liabilities	54,894	3,423	58,317
Net cash provided by operating activities	<u>\$ 326,487</u>	<u>\$ 162,409</u>	<u>\$ 488,896</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, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Property taxes	\$ 320,100	\$ 3,238	\$ 323,338	\$ 323,338	\$ -
Delinquent taxes	5,200	13,950	19,150	23,787	4,637
Franchise taxes	57,300	1,105	58,405	58,405	-
Occupational license fee	1,410,500	75,125	1,485,625	1,485,619	(6)
Garbage collections	370,400	16,600	387,000	386,152	(848)
Tourism tax	271,400	46,200	317,600	317,531	(69)
Insurance premium tax	310,003	44,997	355,000	354,415	(585)
Grant income	-	-	-	44,202	44,202
Coal severance	22,200	(13,400)	8,800	10,510	1,710
Interest income	-	-	-	644	644
Other income	227,200	48,100	275,300	244,715	(30,585)
Total revenues	2,994,303	235,915	3,230,218	3,249,318	19,100
Expenditures					
General government	1,148,100	98,683	1,246,783	1,012,809	233,974
Police	681,500	(12,590)	668,910	715,392	(46,482)
Fire	262,703	(58,563)	204,140	221,663	(17,523)
Park	204,100	17,210	221,310	242,209	(20,899)
Streets	190,200	(110,735)	79,465	90,734	(11,269)
Sanitation	300,100	(30,150)	269,950	273,257	(3,307)
Social service	500	(500)	-	-	-
Capital outlay	500	(500)	-	-	-
Debt service	700,100	323,560	1,023,660	892,828	130,832
Total expenditures	3,487,803	226,415	3,714,218	3,448,892	265,326
Excess (deficiency) of revenues over (under) expenditures	(493,500)	9,500	(484,000)	(199,574)	284,426
Other financing sources (uses):					
Transfers out	(500)	500	-	(201,810)	(201,810)
Proceeds from debt	484,000	-	484,000	484,000	-
Total other financing sources (uses)	483,500	500	484,000	282,190	(201,810)
Net change in fund balances	(10,000)	10,000	-	82,616	82,616
Fund balance, beginning of year	10,000	-	-	606,391	606,391
Fund balance, end of year	\$ -	\$ 10,000	\$ -	\$ 689,007	\$ 689,007

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, 2019

	Original Budget	Revisions	Revised Budget	Actual	Variance Positive (Negative)
Revenues					
Tourism tax	\$ -	\$ -	\$ -	\$ 47,641	\$ 47,641
Insurance premium tax	-	-	-	-	-
Grant income	-	-	-	213,336	213,336
Coal severance	-	-	-	-	-
Municipal road aid	16,000	-	16,000	26,125	10,125
Interest income	-	-	-	63	63
Other income	-	-	-	103,858	103,858
Total revenues	16,000	-	16,000	391,023	375,023
Expenditures					
Fire	-	-	-	96,759	(96,759)
Streets	16,000	-	16,000	391,488	(375,488)
Tourism	-	-	-	34,000	(34,000)
Parks	-	-	-	-	-
Social service	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service	-	-	-	-	-
Total expenditures	16,000	-	16,000	522,247	(506,247)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(131,224)	(131,224)
Other financing sources (uses):					
Transfers in	-	-	-	201,810	201,810
Total other financing sources (uses)	-	-	-	201,810	201,810
Net change in fund balances	-	-	-	70,586	70,586
Fund balance, beginning of year	-	-	-	286,776	286,776
Fund balance, end of year	\$ -	\$ -	\$ -	\$ 357,362	\$ 357,362

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

CITY OF JACKSON, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

(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 market value. The investment policy allows the City to invest in those instruments authorized by KRS 66.480.

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 and OPEB

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources, and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the pension and OPEB 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 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. Management is currently evaluating the impact of this Statement on its financial statements.

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.

In April 2019, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"), which seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, while providing financial statement users with additional essential information concerning debt. In particular, GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date that the contractual obligation is established, and it clarifies which liabilities governments should include when disclosing information related to debt. Furthermore, this Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including (1) unused lines of credit; (2) assets pledged as collateral for the debt; and (3) terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB 88 will be effective for the City beginning with its year ending June 30, 2019.

(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, 2019, the carrying amount of the City's deposits (including amounts in restricted asset accounts) was \$853,598 and the bank balances totaled \$900,654. The difference between the carrying amounts and the bank balances was due to items in transit. Of the bank balances, \$638,061 was covered by the Bank Insurance Fund as of June 30, 2019 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.

Investments - At June 30, 2019, the City had the following investments and maturities:

Investment Type -	Investment Maturities (in years)				
	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Government					
Mutual funds	\$ 138,061	\$ 138,061	\$ -	\$ -	\$ -

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City may invest the monies in interest-bearing bonds of any county, urban-county government or city of the first, second, or third class in the State of Kentucky, or in any securities in which trustees are permitted to invest trust funds under the laws of the State of Kentucky, including participation in a local government pension investment fund created pursuant to KRS 95.895.

(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 2019 assessed value for real and tangible property was \$119,315,094. The tax rate adopted was \$.28 and \$.31 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, 2018	Increases	Decreases	June 30, 2019
<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	1,487,006	-	-	1,487,006
Fire department buildings	776,431	-	-	776,431
Parks and recreation	3,921,016	-	-	3,921,016
Sanitation equipment	406,084	-	-	406,084
Police equipment & vehicles	414,282	100,587	-	514,869
Totals	9,351,858	100,587	-	9,452,445
Less: Accumulated Depreciation	(6,115,797)	(300,175)	-	(6,415,972)
Governmental Activities				
Capital Assets, Net	\$ 3,236,061	\$ (199,588)	\$ -	\$ 3,036,473

Business-type Activities

Capital Assets, Not Depreciated:

Land	\$ 536,862	\$ -	\$ -	\$ 536,862
Construction in progress	2,041,579	707,279	1,477,030	1,271,828

Capital Assets, Depreciated:

Distribution plant and equipment	25,581,665	1,477,030	-	27,058,695
Machinery and equipment	<u>1,848,993</u>	<u>-</u>	<u>-</u>	<u>1,848,993</u>
Totals	30,009,099	2,184,309	1,477,030	30,716,378
Less: Accumulated Depreciation	<u>(13,365,634)</u>	<u>(771,778)</u>	<u>-</u>	<u>(14,137,412)</u>

Business-type Activities

Capital Assets, Net	<u>\$ 16,643,465</u>	<u>\$ 1,412,531</u>	<u>\$ 1,477,030</u>	<u>\$ 16,578,966</u>
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Depreciation expense was allocated to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 28,423
Police	41,807
Fire	63,986
Street	15,524
Sanitation	23,623
Park	108,211
Infrastructure	<u>18,601</u>
	<u>\$ 300,175</u>

Business-type activities:

Water	\$ 567,843
Sewer	<u>203,935</u>
	<u>\$ 771,778</u>

(5) LONG-TERM DEBT**Business-Type Activities**

Long-term debt of Proprietary Funds at June 30, 2019 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%	42,000
\$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%	9,000
\$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%	1,780,000
\$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%	442,000

\$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%	638,500
\$140,000 City of Jackson Waterworks and Sewer System Revenue Bonds, Issue of 1999, payable in annual installments ranging from \$1,500 to \$7,100 through 2039, with interest paid semi-annually at 4.50%	100,700
	<u>3,012,200</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%	127,702
\$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%	721,670
\$465,000 capital lease obligation with the Kentucky League of Cities, payable in monthly installments through February, 2038, with interest at 3.125%	336,667
\$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%	309,304
	<u>1,495,343</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%	429,460
\$700,000 subordinated ARRA assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments with interest paid semi-annually at 1.0%	499,047
\$593,000 subordinated assistance agreement to the Kentucky Infrastructure Authority ("KIA"), payable in annual installments through 2038 with interest paid semi-annually at .25%	296,500
4.00% loan agreement to Citizens Bank & Trust, \$1,456,419 payable from EDA and ARC grant proceeds and maturing March 5, 2020	102,161
6.00% loan agreement with a local bank,	

\$52,520 with monthly payments of \$995 through
March, 2023, secured by a jetter

40,302
1,367,470

Total long-term debt - proprietary funds
Less - current portion

5,875,013
(412,479)
\$ 5,462,534

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

Year Ending June 30,	Principal	Interest	Total
2020	\$ 412,479	\$ 192,497	\$ 604,976
2021	277,523	183,593	461,116
2022	374,389	178,958	553,347
2023	261,044	162,821	423,865
2024	239,597	155,909	395,506
2025-2029	1,280,207	688,719	1,968,926
2030-2034	1,125,004	495,230	1,620,234
2035-2039	969,516	332,402	1,301,918
2040-2044	672,254	146,364	818,618
2045-2049	102,000	22,300	124,300
2050-2054	112,500	11,700	124,200
2055-2056	48,500	1,460	49,960
	<u>\$ 5,875,013</u>	<u>\$2,571,953</u>	<u>\$ 8,446,966</u>

The revenue bonds require annual deposits to the reserve account of approximately \$21,940 to attain a balance of \$246,800 as of June 30, 2019. The balance of this reserve at June 30, 2019 was \$38,530. 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 \$14,880 of KIA reserve funds at June 30, 2019.

The following is a summary of changes in long-term debt (including current portions) of the City for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
<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	\$ 105,000	\$ -	\$ 105,000	\$ -
Capital lease obligation with Kentucky League of Cities, \$3,385,000 with monthly payments through January, 2027, secured by general obligations	2,400,411	-	277,084	2,123,327
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	53,760	-	53,760	-

Interest-free note payable to Breathitt County Health Department, \$42,000 due in annual installments of \$3,000 through July, 2026, parking lot	24,000	-	3,000	21,000
2.42% Capital lease obligation with a bank, \$165,364 with monthly payments of \$3,064 through august, 2019, secured by a freightliner	42,256	-	36,146	6,110
5.0% Line of credit for River Crossing Project due June 30, 2019	-	134,000	134,000	-
5.0% Tax anticipation notes payable with a bank, payment due June 30, 2019	-	350,000	350,000	-
Net pension liability	1,983,665	48,793	-	2,032,458
Net OPEB liability	716,748	-	124,247	592,501
Compensated absences	-	135,450	-	135,450
	<u>\$ 5,325,840</u>	<u>\$ 668,243</u>	<u>\$ 1,083,237</u>	<u>\$ 4,910,846</u>

<u>Business-type Activities</u>	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Notes payable	\$ 1,198,750	\$ 439,641	\$ 270,921	\$ 1,367,470
Capital lease obligation	1,596,776	-	101,433	1,495,343
Bonds payable	3,120,800	-	108,600	3,012,200
Net pension liability	914,600	-	105,200	809,400
OPEB liability	278,674	-	42,718	235,956
Compensated absences	-	68,993	-	68,993
Total Business-type Activities	<u>\$ 7,109,600</u>	<u>\$ 508,634</u>	<u>\$ 628,872</u>	<u>\$ 6,989,362</u>

Governmental Activities

The annual requirements to amortize the City's indebtedness as of June 30, 2019 (including interest payments) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 291,190	\$ 67,847	\$ 359,037
2021	292,165	60,292	352,457
2022	300,080	50,894	350,974
2023	309,250	41,240	350,490
2024	324,250	31,286	355,536
2025-2027	633,502	32,881	666,383
	<u>\$ 2,150,437</u>	<u>\$ 284,440</u>	<u>\$ 2,434,877</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 PLAN

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, 2019, employers were required to contribute 21.48% (16.22% - pension, 5.26% insurance) of the member's salary. During the year ending June 30, 2019, the City contributed \$213,269 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2019, the City reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. 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, 2018 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, 2018. At June 30 2018, the City's proportion was 0.046662%.

For the year ended June 30, 2019, the City recognized pension expense of \$346,474. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,693	\$ 41,599
Changes of assumptions	277,732	-
Net difference between projected and actual earnings on investments	-	34,076
Changes in proportion and differences between City contributions and proportionate share of contributions	-	182,359
City contributions subsequent to the measurement date	213,269	-
	<u>\$ 583,694</u>	<u>\$ 258,034</u>

The \$213,269 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, 2020.

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>	
2020	\$ 124,459
2021	54,489
2022	(51,303)
2023	(15,254)
	<u>\$ 112,391</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, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, closed
Payroll Growth	2.00%
Asset Valuation Method	5-year smoothed market
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

There have been no changes in actuarial assumptions since June 30, 2017. However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions.

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 one 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 long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target 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>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.00%</u>	6.09%

Discount Rate: The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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 6.25%, 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 (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	1% Decrease (5.25%)	Current discount rate (6.25%)	1% Increase (7.25%)
City's proportionate share of the net pension liability	\$ 3,577,605	\$ 2,841,858	\$ 2,225,431

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, 2019, there was a payable to the CERS Pension Plan of \$18,098.

(9) OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLAN

County Employees Retirement System

Plan description: The County Employees Retirement System ("CERS") Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

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: CERS health insurance benefits are 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.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2019, CERS allocated 5.26% of the 21.48% 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. During the year ending June 30, 2019, the City contributed \$69,169 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

Implicit Subsidy: The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average

cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is included in the calculation of the total OPEB liability.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to CERS Insurance Fund

At June 30, 2019, the City reported a liability its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. City's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30 2018, the City's proportion was 0.046661%.

For the year ended June 30, 2019, the City recognized OPEB expense of \$97,071, including an implicit subsidy of \$9,887. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 96,546
Changes of assumptions	165,456	1,914
Net difference between projected and actual earnings on investments	-	57,064
Changes in proportion and differences between City contributions and proportionate share of contributions	-	45,243
City contributions subsequent to the measurement date	69,169	-
	<u>\$ 234,625</u>	<u>\$ 200,767</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$69,169 resulting from City contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020.

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 OPEB expense as follows:

<u>Year</u>	
2020	\$ (5,672)
2021	(5,672)
2022	(5,672)
2023	5,411
2024	(15,799)
Thereafter	(7,907)
	<u>\$ (35,311)</u>

Actuarial Methods and Assumptions: The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	28 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.05%, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

There have been no changes in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the total OPEB liability). However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2018, is determined using these updated benefit provisions.

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

The target 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>
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%

Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
Total	<u>100.00%</u>	6.09%

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20 -Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the City's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.85%, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	<u>1% Decrease (4.85%)</u>	<u>Current discount rate (5.85%)</u>	<u>1% Increase (6.85%)</u>
City's proportionate share of the net OPEB liability	\$ 1,076,033	\$ 828,457	\$ 617,567

Sensitivity of the City's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates: The following presents the City's proportionate share of the collective net OPEB liability, as well as what the City's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current trend rate</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$ 616,794	\$ 828,457	\$ 1,077,946

OPEB plan fiduciary net position: Detailed information about the OPEB 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 OPEB plan: At June 30, 2019, there was a payable to the CERS OPEB Plan of \$5,869.

(10) 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
Special Revenue	General Fund	80,000

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 AND OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
Pension:					
City's proportion of the net pension liability	0.466620%	0.049515%	0.052896%	0.058417%	0.052225%
City's proportionate share of the net pension liability	\$ 2,841,858	\$ 2,898,265	\$ 2,604,411	\$ 2,511,669	\$ 1,694,000
City's covered-employee payroll	\$ 1,158,841	\$ 1,175,233	\$ 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	245.233%	246.612%	206.403%	188.664%	141.389%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%	66.80%
OPEB:					
City's proportion of the net OPEB liability	0.046661%	0.049515%			
City's proportionate share of the net OPEB liability	\$ 828,457	\$ 995,421			
City's covered-employee payroll	\$ 1,158,841	\$ 1,175,233			
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	71.490%	84.700%			
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.40%			

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 AND OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pension:						
Contractually required contribution	\$ 213,269	\$ 167,811	\$ 163,945	\$ 156,717	\$ 169,739	\$ 164,621
Contributions in relation to the contractually required contribution	<u>213,269</u>	<u>167,811</u>	<u>163,945</u>	<u>156,717</u>	<u>169,739</u>	<u>164,621</u>
Contribution deficiency (excess)	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,314,852	\$ 1,158,841	\$ 1,175,233	\$ 1,261,812	\$ 1,331,290	\$ 1,198,115
City's contributions as a percentage of its covered-employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
OPEB:						
Contractually required contribution	\$ 69,169	\$ 54,455	\$ 61,254			
Contributions in relation to the contractually required contribution	<u>69,169</u>	<u>54,455</u>	<u>61,254</u>			
Contribution deficiency (excess)	-	-	-			
City's covered-employee payroll	\$ 1,314,852	\$ 1,158,841	\$ 1,175,233			
City's contributions as a percentage of its covered-employee payroll	5.26%	4.70%	4.73%			

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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019

(1) CHANGES OF ASSUMPTIONS

CERS - PENSION

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.

The were no changes made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

CERS – Insurance Fund

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

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

CERS - PENSION

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, 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
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%

CERS – Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2018:

Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4.00%, average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

(3) CHANGES OF BENEFITS

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2018 is determined using these updated benefit provisions

SUPPLEMENTARY INFORMATION

**CITY OF JACKSON, KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019**

	<u>Park</u>	<u>Shop With A Cop</u>	<u>ABC Account</u>	<u>Police Grants</u>	<u>Total Non-Major Governmental Funds</u>
Assets					
Cash	\$ 15,252	\$ 19,131	\$ 22,349	\$ 15,186	\$ 71,918
Total assets	<u>\$ 15,252</u>	<u>\$ 19,131</u>	<u>\$ 22,349</u>	<u>\$ 15,186</u>	<u>\$ 71,918</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted	<u>15,252</u>	<u>19,131</u>	<u>22,349</u>	<u>15,186</u>	<u>71,918</u>
Total fund balances	<u>15,252</u>	<u>19,131</u>	<u>22,349</u>	<u>15,186</u>	<u>71,918</u>
Total liabilities and fund balances	<u>\$ 15,252</u>	<u>\$ 19,131</u>	<u>\$ 22,349</u>	<u>\$ 15,186</u>	<u>\$ 71,918</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, 2019

	Park	Shop With A Cop	ABC Account	Police Grants	Total Non-Major Governmental Funds
Revenues					
Arrest fees, fines and forfeitures	\$ -	\$ -	\$ -	\$ 7,055	\$ 7,055
Parks and recreation	72,914	-	-	-	72,914
Grant income	-	-	37,000	70,147	107,147
Alcohol revenue	-	-	85,588	-	85,588
Other income	-	22,070	-	-	22,070
Total revenues	<u>72,914</u>	<u>22,070</u>	<u>122,588</u>	<u>77,202</u>	<u>294,774</u>
Expenditures					
Police	-	18,768	11,150	67,447	97,365
Parks	71,026	-	-	-	71,026
Capital outlay	-	-	100,587	-	100,587
Debt service	-	-	-	-	-
Total expenditures	<u>71,026</u>	<u>18,768</u>	<u>111,737</u>	<u>67,447</u>	<u>268,978</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,888</u>	<u>3,302</u>	<u>10,851</u>	<u>9,755</u>	<u>25,796</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	1,888	3,302	10,851	9,755	25,796
Fund balance, beginning of year	<u>13,364</u>	<u>15,829</u>	<u>11,498</u>	<u>5,431</u>	<u>46,122</u>
Fund balance, end of year	<u>\$ 15,252</u>	<u>\$ 19,131</u>	<u>\$ 22,349</u>	<u>\$ 15,186</u>	<u>\$ 71,918</u>



Kelley Galloway
Smith Goolsby, PSC

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

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

We have audited, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 14, 2020.

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 of this section 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2019-001 and 2019-002.

Compliance and Other Matters

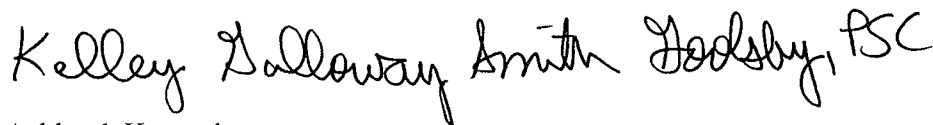
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 matter that is required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kelley Dalloway Smith Goolsby, PSC". The signature is written in a cursive, flowing style.

Ashland, Kentucky
February 14, 2020

CITY OF JACKSON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2019-001 ADJUSTMENTS

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, debt, net pension liability, OPEB liability, and accounts receivable at June 30, 2019.

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 will provide a list of vendors and amounts due to them as of June 30, 2020 in order to make the necessary adjustments for the audit. The City will record recurring accounts payable and others when feasible.

2019-002 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.

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 be 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 on a timely basis and follow-up on old outstanding items.