
City of Jenkins, Kentucky

Audited Financial Statements

June 30, 2017

CITY OF JENKINS

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Year Ended June 30, 2017

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Welch & Company, CPAs, PSC
101 Wind Haven Drive, Suite 101
Nicholasville, Kentucky 40356

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Jenkins, Kentucky

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 Jenkins (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Welch & Company, CPAs PSC

Welch & Company, CPAs PSC
Nicholasville, Kentucky
November 10, 2017

City of Jenkins
Statement of Net Assets
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 117,790	\$ 92,172	\$ 209,962
Restricted cash	0	0	\$ -
Prepaid liability insurance	111,324	0	\$ 111,324
Accounts receivable, net	12,391	97,112	\$ 109,503
Total current assets	241,505	189,284	430,789
Noncurrent Assets:			
Capital assets (net)	2,292,822	17,601,897	19,894,719
Total Assets	2,534,327	17,791,181	20,325,508
LIABILITIES			
Current Liabilities:			
Accounts payable	15,393	45,384	60,777
Payroll related liabilities	9,142	17,296	26,438
Notes payable	170,512	111,601	282,113
Total current liabilities	195,047	174,281	369,328
Noncurrent Liabilities:			
Water deposits	0	61,995	61,995
Notes payable	556,251	2,835,545	3,391,796
Total noncurrent liabilities	556,251	2,897,540	3,453,791
Total Liabilities	751,298	3,071,821	3,823,119
NET ASSETS			
Invested in capital assets, net of related debt	1,566,059	14,654,751	16,220,810
Restricted	0	0	0
Unrestricted	216,970	64,612	281,582
Total Net Assets	\$ 1,783,029	\$ 14,719,363	\$ 16,502,392

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental Activities:					
Loss on sale of LKLP building	170,644	0	0	0	(170,644)
General government	652,980	0	0	0	(652,980)
Depreciation	54,404	0	0	0	(54,404)
Interest	8,549	0	0	0	(8,549)
Public safety	166,458	0	0	0	(166,458)
Depreciation	42,179	0	0	0	(42,179)
Interest	8,827	0	0	0	(8,827)
Transportation	44,309	0	0	0	(44,309)
Streets-Depreciation	4,989	0	0	0	(4,989)
Streets-Interest	857	0	0	0	(857)
Cultural and recreation	65,845	0	0	0	(65,845)
Depreciation	24,649	0	0	0	(24,649)
Interest	9,581	0	0	0	(9,581)
Community development	20,163	0	0	0	(20,163)
Total governmental activities	1,274,434	0	0	0	(1,274,434)
Business-type activities:					
Water	922,526	529,101	0	685,530	292,105
Sewer	468,073	303,760	0	0	(164,313)
Solid waste	172,672	222,080	0	0	49,408
Total business-type activities	1,563,271	1,054,941	0	685,530	177,200
Total	2,837,705	1,054,941	0	685,530	(1,097,234)

Changes In Net Assets:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	<u>\$ (1,274,434)</u>	<u>\$ 177,200</u>	<u>\$ (1,097,234)</u>
General revenues:			
Taxes:			
Property	203,841	0	203,841
Payroll	142,306		142,306
Franchise and public service	184,847	0	184,847
Insurance	112,315	0	112,315
License and permits	14,888	0	14,888
Intergovernmental	145,976	0	145,976
Investment income	392	89	481
Miscellaneous	92,758	0	92,758
Transfers	65,795	(65,795)	0
Total general revenues and transfers	963,118	(65,706)	897,412
Change in net assets	(311,316)	111,494	(199,822)
Net assets-beginning	2,094,345	14,607,868	16,702,213
Net assets-ending	<u>\$ 1,783,029</u>	<u>\$ 14,719,363</u>	<u>\$ 16,502,392</u>

See accompanying notes to the basic financial statements.

City of Jenkins
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Assets				
Cash and cash equivalents	\$ 117,327	\$ (2,778)	\$ 3,241	\$ 117,790
Investments	0	0	0	0
Receivables, net	12,391	0	0	12,391
Total assets	\$ 129,718	\$ (2,778)	\$ 3,241	\$ 130,181
Liabilities and Fund Balances				
Liabilities:				
Payroll liabilities	\$ 9,142	\$ -	\$ -	\$ 9,142
Accounts payable	15,393	0	0	15,393
Total Liabilities	24,535	0	0	24,535
Fund balances:				
Reserved for:				
Assigned	0	0	0	0
Unassigned	105,183	(2,778)	3,241	105,646
Total fund balances	105,183	(2,778)	3,241	105,646
Total liabilities and fund balances	\$ 129,718	\$ (2,778)	\$ 3,241	
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Prepaid liability insurance				111,324
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.				(726,763)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 743,480				2,292,822
Net assets of governmental activities				\$ 1,783,029

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	General Fund	Municipal Road Aid	L.G.E.A.	Total Govern- mental Funds
Revenues				
Property taxes	\$ 203,841	\$ -	\$ -	\$ 203,841
Payroll taxes	142,306	0	0	142,306
Franchise taxes	184,847	0	0	184,847
Insurance tax	112,315	0	0	112,315
Licenses and permits	13,671	0	0	13,671
Intergovernmental	39,011	44,265	58,409	141,685
Proceeds from financing	229,074	0	0	229,074
Investment earnings	392	0	0	392
Sale of surplus property	167,300			167,300
Miscellaneous	92,419	0	0	92,419
Total revenues	1,185,176	44,265	58,409	1,287,850
Expenditures				
Current:				
General government	677,416	0	58,931	736,347
Public Safety	167,905	0	0	167,905
Road	25,523	54,431	0	79,954
Parks and recreation	65,875	0	0	65,875
Community development	41,362	0	0	41,362
Debt service:				
Principal	192,773	0	0	192,773
Interest and other charges	27,814	0	0	27,814
Capital outlay	0	0	0	0
Total expenditures	1,198,668	54,431	58,931	1,312,030
Excess (deficiency) of revenues over expenditures	(13,492)	(10,166)	(522)	(24,180)
Other Financing Sources (Uses)				
Transfers in	65,795	0	0	65,795
Transfers out	0	0	0	0
Grants	0	0	0	0
Total other financing sources and uses	65,795	0	0	65,795
Net Change in Fund Balances	52,303	(10,166)	(522)	41,615
Fund Balances-beginning	52,880	7,388	3,763	64,031
Fund Balances-Ending	\$ 105,183	\$ (2,778)	\$ 3,241	\$ 105,646

See accompanying notes to the basic financial statements.

City of Jenkins
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances-
Governmental Funds to the Statement of Activities**
Year Ended June 30, 2017

Reconciliation of the change in fund balances-total governmental funds
to the change in net assets of governmental activities:

Net change in fund balances-total governmental funds	<u>\$ 41,615</u>
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Amounts reported for governmental activities in the Statement of Activities are
different because:

Governmental funds report capital outlay as expenditures while governmental
activities report depreciation expense to allocate those expenditures over
the life of the assets:

Difference in sale of surplus property	(337,944)
Prepaid liability insurance	111,324
Payments on long term debt	192,773
Proceeds from financing	(229,074)
Other	36,211
Depreciation expense	<u>(126,221)</u>
	<u>(352,931)</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (311,316)</u></u>
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See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Net Assets
Proprietary Funds
June 30, 2017

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
Assets				
Current assets:				
Cash and cash equivalents	\$ (26,150)	\$ 55,835	\$ 62,487	\$ 92,172
Investments	0	0	0	-
Restricted cash	0	0	0	-
Receivables, net	48,850	35,167	13,095	97,112
Other current assets	0	0	0	-
Total current assets	22,700	91,002	75,582	189,284
Noncurrent assets:				
Capital assets:				
Land and improvements	1,480,108	110,500	0	1,590,608
Distribution and collection systems	16,251,638	8,597,597	0	24,849,235
Buildings and equipment	0	149,386	278,020	427,406
Less accumulated depreciation	(4,295,391)	(4,834,531)	(135,430)	(9,265,352)
Total noncurrent assets	13,436,355	4,022,952	142,590	17,601,897
Total assets	13,459,055	4,113,954	218,172	17,791,181
Liabilities				
Current liabilities				
Accounts payable	19,967	7,261	18,152	45,380
Accrued compensated leave	9,167	5,535	2,594	17,296
Bonds, notes, and loans payable	88,717	10,500	12,384	111,601
Total current liabilities	117,852	23,296	33,130	174,278
Noncurrent liabilities:				
Water deposits	61,995	0	0	61,995
Bonds, notes, and loans payable	2,265,901	566,500	3,144	2,835,545
Total noncurrent liabilities	2,327,896	566,500	3,144	2,897,540
Total liabilities	2,445,748	589,796	36,274	3,071,818
Net Assets				
Invested in capital assets, net of related debt	11,081,737	3,445,952	127,062	14,654,751
Restricted(nonexpendable)	0	0	0	0
Unrestricted	(68,430)	78,206	54,836	64,612
Total net assets	\$ 11,013,307	\$ 3,524,158	\$ 181,898	\$ 14,719,363

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Revenues, Expenses, and Changes In Fund Net Assets
Proprietary Funds
Year Ended June 30, 2017

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
Operating revenues:				
Charges for services	\$ 463,835	\$ 303,760	\$ 222,080	\$ 989,675
Miscellaneous	65,266	0	0	65,266
Total operating revenues	529,101	303,760	222,080	1,054,941
Operating expenses:				
Cost of goods sold	139,384	64,798	67,268	271,449
Personal services	274,675	162,093	77,728	514,497
Materials and supplies	13,229	11,654	11,143	36,025
Other services and charges	24,380	8,093	7,198	39,671
Depreciation	421,186	221,436	9,336	651,958
Total operating expenses	872,854	468,073	172,672	1,513,600
Net operating income	(343,753)	(164,313)	49,408	(458,659)
Nonoperating revenue (expense):				
Investment income	82	7	0	89
Interest expense	(49,671)	0	0	(49,671)
Grant and Intergovernmental	685,530	0	0	685,530
Total nonoperating revenue (expense)	635,941	7	0	635,948
Net Income before contributions and transfers	292,188	(164,306)	49,408	177,289
Insurance proceeds	0	0	0	0
Operating transfers in (out)	(45,795)	(20,000)	0	(65,795)
Net income	246,393	(184,306)	49,408	111,494
Net assets-beginning of year	10,766,914	3,708,464	132,490	14,607,868
Net assets-end of year	\$ 11,013,307	\$ 3,524,158	\$ 181,898	\$ 14,719,363

See accompanying notes to the basic financial statements.

City of Jenkins
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	Enterprise Funds			
	Water	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	534,436	297,962	237,909	1,070,307
Payments to suppliers	(176,993)	(84,545)	(85,609)	(347,147)
Payments to employees	(274,675)	(162,093)	(77,728)	(514,497)
Other	0	0	0	0
Net cash provided (used) by operating activities	82,768	51,324	74,572	208,664
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers (to) from other funds	(45,795)	(20,000)	0	(65,795)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grant receipts	685,530	0	0	685,530
Loan proceeds	397,641	0	0	397,641
Insurance proceeds	0	0	0	0
Water deposits	(405)	0	0	(405)
Fixed asset additions	(884,350)	0	0	(884,350)
Principal paid on capital debt	(260,654)	(10,000)	(12,085)	(282,739)
Interest paid on capital debt	(49,671)	0	0	(49,671)
Net cash provided (used) by capital and related financing activities	(111,909)	(10,000)	(12,085)	(133,994)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest	82	7		89
Net increase (decrease) in cash and cash equivalents	(74,854)	21,331	62,487	8,964
Balances-beginning of year	48,704	34,504	0	83,208
Balances-end of year	(26,150)	55,835	62,487	92,172
Cash, including time deposits	(26,150)	55,835	62,487	92,172
Restricted cash, including time deposits	0	0	0	0
Total cash and cash equivalents, end of year	(26,150)	55,835	62,487	92,172
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	(343,754)	(164,313)	49,408	(458,659)
Adjustments:				
Depreciation expense	421,186	221,436	9,336	651,958
Change in assets and liabilities:				
Change in accounts receivable	(7,348)	(8,396)	2,948	(12,796)
Change in accounts payable	14,898	5,398	13,488	33,784
Change in compensated leave	(2,214)	(2,801)	(608)	(5,623)
Net cash provided (used) by operating activities	82,768	51,324	74,572	208,664

See accompanying notes to the basic financial statements.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. 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 and fiduciary 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.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government wide statements incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, data from the fiduciary funds is not incorporated in the government-wide financial statements.

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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, charges for services, and licenses, associated with the current fiscal period are all considered to be susceptible to accrual and accordingly have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available when cash is received.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

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 revenues of the Water and Sewer Enterprise Fund and the Solid Waste Fund 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.

The City reports the following major governmental fund:

The general fund is the City of Jenkins' primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Municipal Road Aid Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The L.G.E.A. Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

The City reports the following major proprietary funds:

The water and sewer fund accounts for the activities related to the provision of water and sewer services to Jenkins businesses, residents, schools, and churches. It operates the water treatment and sewer treatment plants, water distribution systems, sewer collection systems, and pump stations. The solid waste fund accounts for the activities of the City's trash collection operations.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

1.B. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are limited to Certificate of Deposits in local banks.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

Interfund Receivables and Payables

During operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include property taxes, franchise taxes, and grants. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The Jenkins Water and Sewer Funds maintain on hand quantities of supplies and materials. These supplies and materials are not considered material and a value has not been placed on the items.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to December 31, 2005.

The City has chosen not to value infrastructure assets acquired prior to June 30, 2004 in accordance with provisions for small cities.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25-50 years
Improvements	10-50 years
Machinery and equipment	3-20 years
Utility system	25-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to bond covenants and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Leave

The City grants all full-time employees vacation based on years of service. After one year the employee earns two weeks' vacation, after ten years three weeks, after fifteen years eighteen days. Each full-time employee on January 1st earns 48 hours of sick leave.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

1. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets-Consists of net assets with constraints placed on the use either by: external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted net assets-All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Proprietary fund equity is classified the same as in the government-wide statements, as of June 30, 2017 the proprietary funds had restricted Net Assets of \$-0- to fund future construction costs. This amount is not available for ordinary use.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the Mayor through the budgetary process.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

1.C. REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. Property taxes are levied on October 1, based on assessments as of January 1, of the current year, and are due and payable on or before December 31, of the current year. All unpaid taxes become delinquent on January 1, of the following year. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end.

Insurance Premium Tax

The City levies a tax on insurance premiums for property damage insurance written within the City limits. The City uses the tax to supplement the fire department.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character: Current (further classified by function)

Debt Service

Capital Outlay

Proprietary Fund-By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Stewardship, Compliance, and Accountability

The City Treasurer and Mayor prepare the budget for the current fiscal year. The budget is presented to the Council in the form of an ordinance and must comply with all requirements of an ordinance. The budget contains a detail of the expected revenue from all money for specific programs, functions, activities or objectives of the City.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as Interfund transfers. For the purposes of the Statement of Activities, all Interfund transfers between individual governmental funds have been eliminated

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

1.D. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2. DEPOSITS

It is the City's objective for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's policy is to confine all investments to certificates of deposit. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2017. The categories of credit risk are defined as follows:

Category 1-Insured by FDIC or collateralized with securities held by the City or by its agent in its name.

Category 2-Uninsured by collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3-Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with not written or approved collateral agreement.

As of June 30, 2017, the City's deposits, \$209,962, were insured by the FDIC-Category 1 and Category 2.

Note 3. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consists of utilities receivable. Accounts receivable of the governmental activities consists of property tax.

	Governmental Activities	Business-Type Activities	Totals
Accounts receivable	\$ 12,391	\$ 321,836	\$ 334,227
Allowance for doubtful accounts	<u>0</u>	<u>(224,724)</u>	<u>(224,724)</u>
Net Accounts Receivable	<u>\$ 12,391</u>	<u>\$ 97,112</u>	<u>\$ 109,503</u>

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Disposals	Balance At June 30, 2017
<u>Governmental activities:</u>				
General	\$ 3,677,116	\$ 0	\$ (640,814)	\$ 3,036,302
Less accumulated depreciation	<u>(920,128)</u>	<u>(126,221)</u>	<u>302,869</u>	<u>(743,480)</u>
Net	<u>\$ 2,756,988</u>	<u>\$ (126,221)</u>	<u>\$ (337,945)</u>	<u>\$ 2,292,822</u>
<u>Business-type activities</u>				
Land and improvements	\$ 1,590,608	\$ 0	\$ 0	\$ 1,590,608
Distribution and collection system	23,964,885	884,350	0	24,849,235
Buildings and equipment	<u>427,406</u>	<u>0</u>	<u>0</u>	<u>427,406</u>
Total	25,982,899	884,350	0	26,867,249
Less accumulated depreciation	<u>(8,613,394)</u>	<u>(651,958)</u>	<u>0</u>	<u>(9,265,352)</u>
Net	<u>\$ 17,369,505</u>	<u>\$ 232,392</u>	<u>\$ 0</u>	<u>\$ 17,601,897</u>

NOTE 5. COMMITMENTS

The City maintains contractual relationships relating to services provided for the benefit of the City. These commitments include annual contractual obligations for maintenance services. All contracts are current.

NOTE 6. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the City.

NOTE 7. DEFICIT OPERATING BALANCES

There are no funds of the City that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures and a corresponding reduction of fund equity:

Municipal Road Aid	\$ (10,166)
L.G.E.A.	\$ (522)
Sewer	\$ (184,306)

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

NOTE 8. LONG-TERM DEBT

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
<u>Governmental Funds</u>					
Kentucky League of Cities:					
City Hall	\$ 103,151	\$ 0	\$ 5,209	\$ 97,942	\$ 5,416
Kansas State Bank					
Fire Truck	176,959	0	19,094	157,865	19,889
1992 ladder truck	19,069	0	19,069	0	0
Kansas State Bank					
Snow plow	20,359	0	7,567	12,792	7,959
Police cruiser/Tahoe	21,153	0	11,320	9,833	9,833
2016 Insurance loan	11,074	0	11,074	0	0
2017 Insurance loan	0	117,000	107,012	9,988	9,988
2018 Insurance loan	0	112,074	0	112,074	102,549
Bond Issue 2012-C	164,574	0	7,775	156,799	8,091
Bond Issue 2013-A	174,123	0	4,653	169,470	6,787
Total	\$ 690,462	\$ 229,074	\$ 192,773	\$ 726,763	\$ 170,512

Debt Service for the Years Ended June 30,

	Principal	Interest	Total
2018	\$ 170,512	19,710	190,222
2019	60,710	17,718	78,428
2020	47,459	16,119	63,578
2021	48,612	14,528	63,140
2022	49,814	12,856	62,670
2023-27	186,221	40,696	226,917
2028-32	138,843	14,909	153,752
2033-35	24,592	1,124	25,716
Totals	\$ 726,763	\$ 137,660	\$ 864,423

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

Proprietary Funds					
	June 30			June 30	Current
	2016	Additions	Reductions	2017	Portion
KIA A12-30	\$ 425,212	\$ -	\$ 20,904	\$ 404,308	\$ 21,061
KIA F14-005	939,420	397,641	225,250	1,111,811	53,156
USDA RD 91-01	420,000	0	8,000	412,000	8,000
USDA RD 91-09	433,000	0	6,500	426,500	6,500
USDA RD 92-12	587,000	0	10,000	577,000	10,500
Solid Waste Vehicle	27,612	0	12,085	15,527	12,384
Total	\$ 2,832,244	\$ 397,641	\$ 282,739	\$ 2,947,146	\$ 111,601
Debt Service for the Years Ended June 30,					
			Principal	Interest	Total
2018			111,601	45,462	157,063
2019			103,918	44,061	147,979
2020			101,836	42,851	144,687
2021			103,402	41,634	145,036
2022			104,472	40,394	144,866
2023-2027			542,067	182,602	724,669
2028-2032			576,964	148,251	725,215
2033-2037			537,386	110,841	648,227
2038-2042			221,500	79,507	301,007
2034-2047			251,500	50,688	302,188
2048-2052			249,500	18,691	268,191
2053-2054			43,000	2,306	45,306
Total			\$ 2,947,146	\$ 807,288	\$ 3,754,434

Governmental Funds

City Hall: Effective interest rate of 4.27% after considering all monthly fees. Payable monthly at \$792.34

Fire Truck: Effective interest rate of 4.12%, payable semiannually at \$13,095 per payment or \$26,190 per year. The final payment is due February 1, 2024.

Kansas State Bank: 60 month lease for a police cruiser and a Tahoe. Interest rate is approximately 4.50%

Kansas State Bank: 60 month lease for a snow plow. Interest rate is approximately 5.1%, monthly payments are \$702 each.

1992 Ladder Truck: Financed with local bank at approximately 6%, payable in five annual payments of \$7,124 each beginning on June 30, 2014.

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

Bond Issue 2015-C: Calls for the City to deposit monthly into a sinking fund to cover the bonds and interest as they come due. Interest rate is approximately 1.50%. The original amount was \$175,000 and was used to purchase property to construct a community center and swimming pool.

Bond Issue 2016-A: Calls for the City to deposit monthly into a sinking fund to cover the bonds and interest as they come due. Interest rate is approximately 1.60%. The original amount was \$190,000 for the construction of a community center and swimming pool.

Proprietary Funds

The USDA-RD 91-01: loan is initially calculated at an annual interest rate of 2.5% with annual payments of approximately \$18,000. The City will pay interest only for the first two years and begin principal reduction in the fiscal year 2016.

The USDA-RD 91-09: loan is initially calculated at an annual interest rate of 3.375% with annual payments of approximately \$19,000. The City will pay interest only for the first two years and begin principal reduction in the fiscal year 2016.

The USDA-RD 95-12: loan is initially calculated at an annual interest rate of 2.125% with annual payments of approximately \$22,500 maturing in January of 2054. The drawdowns during the year ended June 30, 2016 and additional drawdowns between July 1, 2015 and October 6, 2015 were converted to permanent financing of \$597,000 as of October 6, 2015. The first principal payment will be due January 1, 2016, interest will be paid semi-annually in January and July.

Kentucky Infrastructure Authority (KIA):

A12-30 loan is initially calculated at an annual interest rate of 0.75% with semi-annual payments of approximately \$12,200 amortized over 20 years. The loan requires the City to deposit \$1,250 per year in a Repair & Maintenance (R&M) until the balance reaches \$12,500 and maintain that balance for the life of the loan. The loan is for \$500,000 with KIA forgiving \$50,000 (10%). As of June 30, 2017, \$500,000 had been drawn down and \$50,000 (10%) forgiven. The balance of this loan as of June 30, 2017, is \$404,308.14.

F14-005 loan is initially calculated at an annual interest rate of 0.75% with semi-annual payments of approximately \$32,400 amortized over 20 years. The loan requires the City to deposit \$6,000 per year in a Repair & Maintenance (R&M) until the balance reaches \$60,000 and maintain that balance for the life of the loan. The loan is for \$2,400,000 with KIA forgiving \$1,200,000 (50%). As of June 30, 2017, \$2,400,000 had been drawn down and \$1,200,000 (50%) forgiven. The balance of this loan as of June 30, 2017, is \$1,111,811.17.

Others:

On September 25, 2014, the City entered a lease-purchase agreement for a 2014 Freightliner garbage Truck. The agreement calls for forty-eight payments of \$1,052.18 each beginning October 25, 2014. The interest rate is 2.45%.

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. The City contracts with the Kentucky League of Cities Insurance Services (KLCIS), a local government risk pool for insurance coverage for these risks. KLCIS was formed for the primary purpose of managing and funding third-party liability claims against its members. As a member of KLCIS, the City is required to make annual contributions sufficient to produce the funds necessary to fund the administrative expenses and the claims and claims expenses,

City of Jenkins, Kentucky
Notes To Financial Statements
June 30, 2017

and any deficiencies in the cumulative reserves. For the last three years, settled claims have not exceeded commercial insurance coverage, nor has there been any reduction in insurance coverage.

NOTE 10. CONTINGENCIES

The City is a recipient of several state grants. These programs and grants are subject to a variety of financial and compliance audits by the grantors or their representatives. The City's compliance with applicable requirements for 2017 will be established at a future date.

NOTE 11. RETIREMENT BENEFITS

The City participates in a retirement plan through the Kentucky Public Employees' Deferred Compensation Authority. All full-time employees that wish to participate may do so. The City is currently not contributing to the employees' accounts.

NOTE 12. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through November 10, 2017, the date which the financial statements were available to be issued. The evaluation has disclosed the following event:

July 10, 2017: Council approved loan to pay for insurance, \$111,324.

July 27, 2017: City purchased a new vehicle for \$34,484.

September 11, 2017: Council approved loan for fire department, \$27,000.

October 12, 2017: Fire department received a grant for \$141,715.

City of Jenkins
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2017

	Actual	Original	Final	\$ Over Budget
Ordinary Income/Expense				
Income				
400 Property taxes	203,841	252,400	211,400	(7,559)
404 Payroll taxes	142,306	166,000	166,000	(23,694)
408 Franchise taxes	184,847	191,265	191,265	(6,418)
412 Insurance tax	112,315	110,000	112,314	1
416 Fees and fines	1,217	3,000	3,000	(1,783)
420 Licenses and permits	14,888	16,000	16,000	(1,112)
424 Intergovernmental	138,496	136,350	136,350	2,146
428 Proceeds from financing	229,074	0	228,324	750
432 Investment earnings	392	4,100	4,100	(3,708)
436 Miscellaneous	214,353	56,316	253,616	(39,263)
Total Income	1,241,729	935,431	1,322,369	(80,640)
Expense				
500 General government	736,347	462,212	849,150	(112,803)
504 Public safety	167,905	244,843	244,843	(76,938)
508 Road	79,954	54,450	54,450	25,504
516 Parks and recreation	65,875	85,500	85,500	(19,625)
Debt service	102,587	58,626	58,626	43,961
520 Cultural & recreation	41,362	29,800	29,800	11,562
Total Expense	1,194,030	935,431	1,322,369	(128,339)
Net Ordinary Income	47,699	0	0	47,699
Other Income/Expense				
Other Expense				
600 Transfer in	65,795	0	0	
604 Transfer out	0			
Total Other Expense	65,795			
Net Other Income	(65,795)	0	0	(65,795)
Net Income	(18,096)	0	0	(18,096)
Adjustments to conform with GAAP:				
Non-budgetary inflows/outflows	70,399			
Fund Balance Beginning	52,880			
Fund Balance Ending	\$ 105,183			

City of Jenkins, Kentucky

Single Audit Section

Year Ended June 30, 2017

City of Jenkins
Schedule Of Expenditures Of Federal Awards
For The Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/ Program Title:</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifier</u>	<u>Expenditures</u>
Environmental Protection Agency	66.468	Waterline	\$397,642
Drinking Water State Revolving Funds		Improvement Phase IV	
Department of the Interior	15.252	AMLR-Neon Water	\$486,708
Abandoned Mine Land Reclamation Program		Connect	
Totals			<u><u>\$884,350</u></u>

City of Jenkins
Notes To The Schedule Of Expenditures Of Federal Awards
For The Year Ended June 30, 2017

Note 1-Basis of Presentation

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

Note 2- Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. City of Jenkins has not elected to use the 10-percent indirect cost rate as allowed under the Uniform Guidance.

City of Jenkins
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2017

Summary of Audit Results:

1. The auditor's report expresses an unqualified opinion of the basic financial statements of the City of Jenkins.
2. No instances of noncompliance material to the basic financial statements of the City of Jenkins were disclosed during the audit.
3. No instances of significant deficiencies were disclosed during the audit of the major federal award programs.
4. The auditor's report on compliance for the major federal award programs for the City of Jenkins expresses an unqualified opinion. The programs tested as major programs were:

Environmental Protection Agency
Drinking Water State Revolving Funds
CFDA: 66.468

Department of the Interior
Abandoned Mine Land Reclamation Program
CFDA: 15.252

5. The threshold for determining Type A programs was \$750,000. Federal programs that do not meet the Type A criteria are considered Type B programs.
6. The City of Jenkins was determined to be a low-risk auditee

Findings and Questioned Costs – Major Federal Award Program:

NONE

Welch & Company, CPAs, PSC

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of City of Jenkins, Kentucky as of and for the year ended June 30, 2017, and have issued our report thereon dated November 10, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Welch & Company, CPAs, PSC

Welch & Company, CPAs, PSC
Nicholasville, Kentucky
November 10, 2017

Welch & Company, CPAs, PSC
101 A Wind Haven drive, Suite 101
Nicholasville, Kentucky 40356

**Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance
In Accordance with Uniform Guidance**

The Mayor and City Council
City of Jenkins
Jenkins, Kentucky

Report on Compliance for Each Major Federal Program

We have audited City of Jenkins's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Jenkins's major federal programs for the year ended June 30, 2017. City of Jenkins's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Welch & Company, CPAs, PSC

Welch & Company, CPAs, PSC

November 10, 2017

Welch & Company, CPAs, PSC
101 A Wind Haven drive, Suite 101
Nicholasville, Kentucky 40356

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 Mayor and City Council
City of Jenkins
Jenkins, 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 Jenkins, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Jenkins' basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Jenkins' 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 of Jenkins' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Jenkins' 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. However, the deficiency described in Finding 2017-1 is considered to be a *significant deficiency*. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

City of Jenkins' Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Welch & Company, CPAs, PSC

Welch & Company, CPAs, PSC
November 10, 2017

City of Jenkins SCHEDULE OF FINDING AND RESPONSE For the Year Ended June 30, 2017

Finding 2017-1

Neither those charged with governance nor the individual who performs the accounting functions have the education or training so that they may prepare financial statements in accordance with generally accepted accounting principles.

Criteria: In order for those charged with governance and Management to make financial decisions affecting the organization, accurate and timely financial statements need to be available.

Cause: Management and the individual who performs the accounting functions have not received an accounting education or training in preparation of financial statements in accordance with generally accepted accounting principles.

Effect: The financial statements that those charged with governance and management receive are not prepared in accordance with generally accepted accounting principles.

Recommendation: No recommendation is made.

Management Response: City of Jenkins is a small organization and as such does not have the resources to hire a CPA. The operating budget is small and until the economy begins to improve and more income is generated, they are limited in their selection. The bookkeeper has received some limited software and accounting training for regular and routine transactions. If unusual or difficult to record transactions are encountered, advice from a CPA is sought.