

JACKSON COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

with

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Jackson County School District
McKee, 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 Jackson County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District'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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. 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 Jackson County School District, as of June 30, 2013, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information per the table of contents 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jackson County School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2013, on our consideration of Jackson County School District'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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jackson County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

The management of Jackson County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2013. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,831,143 in 2013 and \$7,382,008 in 2012. This is a decrease of \$3,550,865. The majority of this decrease is the result of the Jackson County High School bonding proceeds being disbursed in 2013. The District's goal was to insure a minimal two percent contingency in which we were successful in achieving that goal in our overall operations of the District. In 2013 and 2012, cash of \$ 1,009,714 and \$4,980,604 respectively, was reserved for capital projects.
- The District's plan was to save as much money as possible in all areas of operations, including reducing personnel. The budget committee has worked hard to eliminate all positions possible without hurting the integrity of the District.
- A concerted effort was focused on saving as much as possible when purchasing in the areas of supplies, food, maintenance items, and other materials. We had targeted our Food Service as a top priority for improvements. Continuation of working with local districts to purchase supplies with a three county cooperative approach has resulted in a savings in operations in food service. We have also been effective in saving some monies in other areas of purchasing. An increased focus on student participation rates has resulted in an increase in food service revenues along with implementation of the CEO (community eligibility program) for our food service program which will also provide additional revenue.
- The current major project for Jackson County is the new Jackson County High School. The first phase of construction began during the 2009-2010 school year. The district received additional Category Five funding which enabled us to continue to the next phase of the new high school. The district had to commit to levy an additional five cent equivalent tax rate to qualify for the Category Five funding. This year the district received additional funding from the SFCC (School Facility Construction Commission). The total project cost is now estimated at \$21.2 million of which \$18.8 million is SFCC and Category Five funding and \$2.4 million consists of local funds. The next and final phase of the high

school project is underway and will be completed in the 2013-14 fiscal year along with new athletic fields.

- Our District remains committed to educational excellence by keeping teacher salaries high and the student-teacher ratio low.
- The General Fund had \$17,475,329 in revenues, excluding on-behalf payments, interfund transfers, and proceeds from sale of assets, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and the utility tax which was implemented in 2011. Excluding on-behalf payments and interfund transfers, the General Fund had \$17,272,353 in expenditures. A growing concern for the district, however, is the sequestration of federal funds and the impact it may have on our staffing and overall budget.
- Governmental Capital Assets had a net increase of \$3,661,028 during the current fiscal year. Business-Type Activities Capital Assets had a net decrease of \$16,747 during the current fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations. The district was able to refinance some bonding issues in FY 2012-13 at a lower interest rate in which those savings have aided us in our effort to gradually rebuild our bus fleet. The total debt decreased by \$1,100,570 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 10 to 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position for the period ending June 30, 2013

Fiscal year 2013 government-wide net position compared to 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 5,072,960	\$ 8,749,512
Capital assets	43,312,401	39,660,560
Total Assets	<u>\$ 48,385,361</u>	<u>\$ 48,410,072</u>
Current liabilities	\$ 2,715,764	\$ 2,742,232
Noncurrent liabilities	25,557,121	26,807,274
Total Liabilities	<u>\$ 28,272,885</u>	<u>\$ 29,549,505</u>
Net investment in capital assets, net of debt	\$ 16,307,837	\$ 4,739,584
Restricted net position	2,088,284	6,486,477
Unrestricted net position	1,716,355	7,634,504
Total Net Position	<u>\$ 20,112,476</u>	<u>\$ 18,860,567</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$19,792,743; proprietary assets exceeded liabilities by \$319,733 and total assets exceeded liabilities by \$20,112,476 at June 30, 2013.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2013 and 2012.

JACKSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year ended June 30, 2013

	<u>2013</u>	<u>2012</u>
Revenues and other financing sources		
Local revenue sources	\$ 3,015,106	\$ 2,888,584
State revenue sources	18,187,123	18,081,953
Federal revenue	<u>4,247,344</u>	<u>4,108,542</u>
Total Revenue	<u>25,449,573</u>	<u>25,079,079</u>
Expenditures and other financing uses		
Instruction	13,340,868	13,233,040
Student support services	1,026,499	1,113,266
Instructional support	1,440,320	1,596,651
District administration	735,608	707,864
School administration	658,440	613,525
Business operations	507,125	472,056
Plant operation and maintenance	1,777,745	1,606,630
Student transportation	2,334,962	2,083,349
Community services	298,864	265,860
Debt service	2,727,815	2,729,531
Architectural and engineering	2,544	21,741
Building acquisitions and construction	<u>4,450,232</u>	<u>7,654,641</u>
Total expenditures	<u>29,301,022</u>	<u>32,098,154</u>
Excess revenues (expenditures)	<u>\$ (3,851,449)</u>	<u>\$ (7,019,075)</u>
Other financing sources (uses)		
Bond proceeds	\$ 4,100,000	\$ 14,294,438
Bond premium	38,091	-
Payments to escrow agent - refunding	(3,648,223)	(1,918,850)
Debt issuance cost	(44,868)	-
Transfers in	1,779,966	1,621,971
Transfers out	(1,779,966)	(1,634,302)
Proceeds from sale of assets	<u>7,813</u>	<u>25,236</u>
Total other financing sources (uses)	<u>\$ 452,813</u>	<u>\$ 12,388,493</u>
Net change in fund balance	<u>\$ (3,398,636)</u>	<u>\$ 5,369,416</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense

as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$506,451 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2013, were \$17,475,329 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$974,417 or 5.90% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2013 was \$17,272,353.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$971,447 or 5.32% more than budget.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent or the Director of Financial Services at 606-287-7181, or by mail at 526 Main Street, PO Box 127, McKee, Kentucky 40447.

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,790,430	\$ 40,713	\$ 3,831,143
Accounts receivable:			
Taxes	30,524	-	30,524
Other	56,485	1,020	57,505
Intergovernmental - Federal	547,027	43,989	591,016
SFCC current receivable of bonds payable	372,237	-	372,237
Inventory	132,776	57,759	190,535
Bond issue costs, net	274,635	-	274,635
SFCC noncurrent receivable of bonds payable	6,696,919	-	6,696,919
Capital Assets, net			
Nondepreciable	12,106,027	-	12,106,027
Depreciable	24,025,817	209,003	24,234,820
Total assets	<u>48,032,877</u>	<u>352,484</u>	<u>48,385,361</u>
LIABILITIES			
Accounts payable	469,663	32,751	502,414
Accrued expenses	284,788	-	284,788
Deferred revenue	189,242	-	189,242
Current portion of capital lease obligations	64,524	-	64,524
Current maturities of bond obligations	1,485,571	-	1,485,571
Current portion of accumulated sick leave	15,000	-	15,000
Interest payable	174,225	-	174,225
Noncurrent portion of capital lease obligations	121,266	-	121,266
Noncurrent maturities of bond obligations	25,244,358	-	25,244,358
Noncurrent portion of accumulated sick leave	191,497	-	191,497
Total liabilities	<u>28,240,134</u>	<u>32,751</u>	<u>28,272,885</u>
NET POSITION			
Net investment in capital assets	16,098,834	209,003	16,307,837
Restricted for:			
Capital expenditures	1,009,714	-	1,009,714
Other	967,840	110,730	1,078,570
Unrestricted	1,716,355	-	1,716,355
Total net position	<u>\$ 19,792,743</u>	<u>\$ 319,733</u>	<u>\$ 20,112,476</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 13,885,852	\$ -	\$ 5,385,731	\$ -	\$ (8,500,121)	\$ -	\$ (8,500,121)
Student	1,049,929	-	378,684	-	(671,245)	-	(671,245)
Instructional support	1,475,963	-	925,672	-	(550,291)	-	(550,291)
District administration	754,085	-	168,304	-	(585,781)	-	(585,781)
School administration	660,961	-	168,304	-	(492,657)	-	(492,657)
Business operations	508,248	-	126,228	-	(382,020)	-	(382,020)
Plant operations and maintenance	1,959,764	3,600	420,760	-	(1,535,404)	-	(1,535,404)
Student transportation	2,313,544	-	589,064	-	(1,724,480)	-	(1,724,480)
Community services	299,482	-	252,457	-	(47,025)	-	(47,025)
Interest on long-term debt	1,106,762	-	-	2,696,956	1,590,194	-	1,590,194
Total governmental activities	24,014,590	3,600	8,415,204	2,696,956	(12,898,830)	-	(12,898,830)
Business-type activities							
Food service	1,721,422	147,626	1,636,708	-	-	62,912	62,912
Community service operations	8,506	6,231	248	-	-	(2,027)	(2,027)
Total business-type activities	1,729,928	153,857	1,636,956	-	-	60,885	60,885
Total primary government	\$ 25,744,518	\$ 157,457	\$ 10,052,160	\$ 2,696,956	(12,898,830)	60,885	(12,837,945)
General revenues							
Taxes:							
Property					1,810,995	-	1,810,995
Motor vehicle					350,684	-	350,684
Utility					656,715	-	656,715
Other local					97,992	-	97,992
Earnings on investments					9,672	-	9,672
State grants					11,075,054	-	11,075,054
Other local amounts					85,448	-	85,448
Transfers					-	-	-
Gain/(loss) on disposal of assets					4,461	-	4,461
Total general revenues					14,091,021	-	14,091,021
Change in net position					1,192,191	60,885	1,253,076
Net position as of June 30, 2012					18,601,719	258,848	18,860,567
Prior period adjustment					(1,167)	-	(1,167)
Net position as of June 30, 2013	\$ 19,792,743	\$ 319,733	\$ 20,112,476				

The accompanying notes are an integral part of these financial statements

JACKSON COUNTY SCHOOL DISTRICT

BALANCE SHEET -

GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,825,555	\$ -	\$ 1,305,644	\$ -	\$ 4,131,199
Accounts receivable:					
Taxes	30,524	-	-	-	30,524
Accounts	56,485	-	-	-	56,485
Intergovernmental - Federal	-	547,027	-	-	547,027
Supplies inventory	132,776	-	-	-	132,776
Total assets	\$ 3,045,340	\$ 547,027	\$ 1,305,644	\$ -	\$ 4,898,011
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 340,769	\$ -	\$ -	\$ 340,769
Accounts payable	156,717	17,016	295,930	-	469,663
Accrued salaries and wage payable	284,788	-	-	-	284,788
Deferred revenue	-	189,242	-	-	189,242
Total liabilities	441,505	547,027	295,930	-	1,284,462
Fund balances					
Nonspendable	132,776	-	-	-	132,776
Restricted	-	-	1,009,714	-	1,009,714
Committed	15,000	-	-	-	15,000
Assigned	835,064	-	-	-	835,064
Unassigned	1,620,995	-	-	-	1,620,995
Total fund balances	2,603,835	-	1,009,714	-	3,613,549
Total liabilities and fund balances	\$ 3,045,340	\$ 547,027	\$ 1,305,644	\$ -	\$ 4,898,011

JACKSON COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF NET POSITION
 Year ended June 30, 2013

Total fund balances - governmental funds	\$ 3,613,549
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	36,131,844
Capitalized the bond issue costs for the sale/refunding of bonds less amortization over the life of the bonds.	274,635
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	7,069,156
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(26,729,929)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(185,790)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(206,497)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(174,225)</u>
Total net position - governmental activities	<u>\$ 19,792,743</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2013

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 1,432,133	\$ -	\$ -	\$ 378,862	\$ 1,810,995
Motor vehicle	350,684	-	-	-	350,684
Utility	656,715	-	-	-	656,715
Other	97,992	-	-	-	97,992
Earnings on investments	9,672	-	-	-	9,672
Other local	83,046	6,002	-	-	89,048
Intergovernmental - State	14,812,025	1,527,568	-	1,847,530	18,187,123
Intergovernmental - Federal	33,062	3,364,856	142,796	706,630	4,247,344
Total revenues	17,475,329	4,898,426	142,796	2,933,022	25,449,573
Expenditures					
Current:					
Instruction	9,826,083	3,514,785	-	-	13,340,868
Student	973,940	52,559	-	-	1,026,499
Instructional support	521,667	918,653	-	-	1,440,320
District administration	735,608	-	-	-	735,608
School administration	651,584	6,856	-	-	658,440
Business operations	499,592	7,533	-	-	507,125
Plant operations and maintenance	1,777,745	-	-	-	1,777,745
Student transportation	2,196,584	138,378	-	-	2,334,962
Community services	7,983	290,881	-	-	298,864
Architectural and engineering	-	-	2,544	-	2,544
Building acquisition and construction	-	-	4,247,221	-	4,247,221
Other facilities	-	-	202,711	-	202,711
Site improvement	-	300	-	-	300
Debt service	81,567	-	-	2,646,248	2,727,815
Total expenditures	17,272,353	4,929,945	4,452,476	2,646,248	29,301,022
Excess (deficit) of revenues over (under) expenditures	202,976	(31,519)	(4,309,680)	286,774	(3,851,449)
Other financing sources (uses)					
Bond principal proceeds	-	-	445,000	3,655,000	4,100,000
Bond premium	-	-	-	38,091	38,091
Deposits with escrow agents	-	-	-	(3,648,223)	(3,648,223)
Debt issuance costs	-	-	-	(44,868)	(44,868)
Proceeds from Sale of Assets	6,811	1,002	-	-	7,813
Transfers in	417,699	30,517	25,923	1,305,827	1,779,966
Transfers out	(56,399)	-	-	(1,723,567)	(1,779,966)
Total other financing sources (uses)	368,111	31,519	470,923	(417,740)	452,813
Net change in fund balance	571,087	-	(3,838,757)	(130,966)	(3,398,636)
Fund balance as of June 30, 2012	2,032,748	-	4,848,471	132,133	7,013,352
Prior period adjustment	-	-	-	(1,167)	(1,167)
Fund balance as of June 30, 2013	\$ 2,603,835	\$ -	\$ 1,009,714	\$ -	\$ 3,613,549

JACKSON COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2013

Net change in total fund balances - governmental funds \$ (3,398,636)

Amounts reported for governmental activities in the statement of revenues,
expenses, and changes in net position are different because:

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of revenues, expenses, and changes in net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year. 3,661,028

Bond issuance costs are reported as expenditures in the fund financial statements because they use current resources, but they are presented as assets in the statement of revenues, expenses, and changes in net position and amortized over the life of the bond. 50,809

The proceeds of receipts of accounts receivable provide current financial resources and are reported in this fund financial statement; however, they are presented as an increase of assets in the statement of net assets. (247,253)

Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position. 1,174,039

Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of revenues, expenses, and changes in net position. (42,852)

Accumulated sick leave is recognized by the amount earned in the statement of revenues, expenses, and changes in net position, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. (4,944)

Change in net position - governmental activities \$ 1,192,191

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 32,823	\$ 7,890	\$ 40,713
Accounts receivable	43,989	1,020	45,009
Inventory	57,759	-	57,759
Total current assets	<u>134,571</u>	<u>8,910</u>	<u>143,481</u>
Noncurrent assets			
Capital assets	858,499	-	858,499
Less accumulated depreciation	(649,496)	-	(649,496)
Total noncurrent assets	<u>209,003</u>	<u>-</u>	<u>209,003</u>
Total assets	<u>343,574</u>	<u>8,910</u>	<u>352,484</u>
LIABILITIES			
Checks written in excess of account balance	-	-	-
Accounts payable	32,678	73	32,751
Total liabilities	<u>32,678</u>	<u>73</u>	<u>32,751</u>
NET POSITION			
Net investment in capital assets	209,003	-	209,003
Restricted for:			
Other	101,893	8,837	110,730
Unrestricted	-	-	-
Total net position	<u>\$ 310,896</u>	<u>\$ 8,837</u>	<u>\$ 319,733</u>

JACKSON COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS**

Year ended June 30, 2013

	Food Service Fund	Adult Education	Total
Operating revenues			
Lunchroom sales	\$ 147,626	\$ -	\$ 147,626
Tuition and fees	-	6,231	6,231
Total operating revenues	<u>147,626</u>	<u>6,231</u>	<u>153,857</u>
Operating expenses			
Salaries and wages	463,667	695	464,362
Employee benefits	299,721	290	300,011
Materials and supplies	941,287	7,521	948,808
Depreciation	16,747	-	16,747
Total operating expenses	<u>1,721,422</u>	<u>8,506</u>	<u>1,729,928</u>
Operating loss	<u>(1,573,796)</u>	<u>(2,275)</u>	<u>(1,576,071)</u>
Nonoperating revenues			
Federal grants	1,388,451	-	1,388,451
State grants	179,421	248	179,669
Donated commodities	68,836	-	68,836
Interest income	-	-	-
Loss on disposal of assets	-	-	-
Total nonoperating revenues/(expenses)	<u>1,636,708</u>	<u>248</u>	<u>1,636,956</u>
Income before contributions			
Transfers and special items	62,912	(2,027)	60,885
Transfers in	-	-	-
Change in net position	62,912	(2,027)	60,885
Net position as of June 30, 2012	<u>247,984</u>	<u>10,864</u>	<u>258,848</u>
Net position as of June 30, 2013	<u>\$ 310,896</u>	<u>\$ 8,837</u>	<u>\$ 319,733</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 147,626	\$ -	\$ 147,626
Other activities	-	15,680	15,680
Cash paid to/for:			
Employees	(763,388)	(985)	(764,373)
Supplies	(965,849)	(8,109)	(973,958)
Net cash used in operating activities	<u>(1,581,611)</u>	<u>6,586</u>	<u>(1,575,025)</u>
Cash flows from non-capital financing activities			
Grants received	1,614,434	248	1,614,682
Transfer in From General Fund	-	-	-
Net cash used in non-capital financing activities	<u>1,614,434</u>	<u>248</u>	<u>1,614,682</u>
Cash flows from investing activities			
Purchase of fixed assets	-	-	-
Interest received on investments	-	-	-
Net cash used in capital and related activities	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	32,823	6,834	39,657
Cash and cash equivalents as of June 30, 2012	-	1,056	1,056
Cash and cash equivalents as of June 30, 2013	<u>\$ 32,823</u>	<u>\$ 7,890</u>	<u>\$ 40,713</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (1,573,796)	\$ (2,275)	\$ (1,576,071)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in Accounts receivable	-	9,449	9,449
(Increase) Decrease in Inventory	(35,525)	-	(35,525)
Increase (Decrease) in Accounts payable	7,595	(588)	7,007
Increase (Decrease) in Checks written in excess of account balance	(65,468)	-	(65,468)
Depreciation	16,747	-	16,747
Commodities received	68,836	-	68,836
Net cash used in operating activities	<u>\$ (1,581,611)</u>	<u>\$ 6,586</u>	<u>\$ (1,575,025)</u>
Schedule of non-cash transactions:			
Loss on disposal of assets	\$ -	\$ -	\$ -
Depreciation	16,747	-	16,747
Donated commodities	68,836	-	68,836
Total non-cash transactions	<u>\$ 85,583</u>	<u>\$ -</u>	<u>\$ 85,583</u>

JACKSON COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION -
 FIDUCIARY FUNDS
 June 30, 2013

	Agency Funds	Total Fiduciary Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 124,231	\$ 124,231
Accounts receivable	-	-
	<u> </u>	<u> </u>
Total assets	<u>124,231</u>	<u>124,231</u>
LIABILITIES		
Accounts payable	-	-
Due to student groups	124,231	124,231
	<u> </u>	<u> </u>
Total liabilities	<u>124,231</u>	<u>124,231</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>

1. REPORTING ENTITY

The Jackson County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Jackson County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Jackson County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

The basic financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Jackson County School District Finance Corporation – In a prior year, the Jackson County Board of Education resolved to authorize the establishment of the Jackson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities; and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

I. Government Fund Types - continued

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Funds)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Day Care Fund accounts for the funds raised at schools providing after school care for children.

The Adult Education Fund accounts for the adult education operations of the District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Accounting Procedures for Kentucky School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The District reports deferred revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of activities as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.587 per \$100 valuation for real property, \$.587 per \$100 valuation for business personal property and \$.568 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land and construction-in-progress, are depreciated. 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>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

Cash and Cash Equivalents

The District considers demand deposits, certificates of deposit, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements; and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balances

Fund balances are separated into five categories, as required by GASB 54, as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013, in the governmental funds balance sheet.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Jackson County Bank	\$ 4,864,636	\$ 3,955,374
	<u>-</u>	<u>-</u>
	<u>\$ 4,864,636</u>	<u>\$ 3,955,374</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 3,790,430
Proprietary funds	40,713
Agency funds	<u>124,231</u>
	<u>\$ 3,955,374</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2013, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	June 30, 2012			June 30, 2013	
Governmental Activities	Balance	Additions	Retirements	Balance	
Land & land improvements	\$ 2,952,138	\$ -	\$ -	\$ 2,952,138	
Buildings	29,570,833	-	-	29,570,833	
Technology equipment	2,295,846	-	77,090	2,218,756	
Vehicles	2,862,710	166,346	-	3,029,056	
General equipment	372,530	28,403	-	400,933	
Construction work in progress	7,459,115	4,452,776	-	11,911,891	
Total historical cost	45,513,172	4,647,525	77,090	50,083,607	
Less accumulated depreciation	13,042,357	983,145	73,738	13,951,764	
Governmental capital assets, net	<u>\$ 32,470,815</u>	<u>\$ 3,664,380</u>	<u>\$ 3,352</u>	<u>\$ 36,131,843</u>	
Business-type Activities					
Buildings	\$ 390,859	\$ -	\$ -	\$ 390,859	
Technology equipment	15,666	-	-	15,666	
Food service equipment	451,974	-	-	451,974	
Total historical cost	858,499	-	-	858,499	
Less accumulated depreciation	632,749	16,747	-	649,496	
Business-type capital assets, net	<u>\$ 225,750</u>	<u>\$ (16,747)</u>	<u>\$ -</u>	<u>\$ 209,003</u>	

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 574,385
Student	23,430
Instruction staff	35,643
District administrative	18,477
School administrative	2,521
Business	1,123
Plant operation and maintenance	182,019
Student transportation	144,928
Community services	619
	<u>\$ 983,145</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

6. CAPITAL LEASE PAYABLE

The District has entered into a capital lease agreement for buses which will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2013:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2012	Debt Issued	Debt Paid	Balance June 30, 2013	Due Within One Year
KISTA:								
2012	March, 2022	2.0% - 2.625%	\$ 82,368	\$ 82,368	\$ -	\$ 8,959	\$ 73,409	\$ 9,275
2005	March, 2015	3.0% - 3.625%	597,062	176,890	-	64,509	112,381	55,249
			-	-	-	-	-	-
			<u>\$ 679,430</u>	<u>\$ 259,258</u>	<u>\$ -</u>	<u>\$ 73,468</u>	<u>\$ 185,790</u>	<u>\$ 64,524</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2013:

Year	Principal	Interest	Total
2013-14	\$ 64,524	\$ 5,578	\$ 70,102
2014-15	64,919	3,460	68,379
2015-16	7,946	1,233	9,179
2016-17	8,104	1,074	9,178
2017-18	8,262	912	9,174
2018-19	8,452	747	9,199
2019-20	8,610	578	9,188
2020-21	7,376	384	7,760
2021-22	7,597	198	7,795
Totals	<u>\$ 185,790</u>	<u>\$ 14,164</u>	<u>\$ 199,954</u>
		Less: amounts representing interest	<u>(14,164)</u>
		Net Capital lease liability	<u>\$ 185,790</u>

7. LONG-TERM OBLIGATIONS

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Jackson County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2004	\$ 250,000	3.1%
2004	1,615,000	3.0% - 4.35%
2005	3,155,000	3.15% - 4.15%
2007	2,260,000	3.40% - 3.80%
2009	8,845,000	1.0% - 5.625%
2011	11,900,000	5%
2011K	362,070	1.5% - 4.3%
2012R	1,950,000	1.0% - 2.0%
2013	3,655,000	0.30% - 0.750%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Jackson County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2013 for debt service (principal and interest) are as follows:

See table on next page

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2013

7. LONG-TERM OBLIGATIONS-CONTINUED

Year	Jackson County School District		Kentucky School Facility Construction Commission		QZAB		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2013-14	\$ 1,113,334	\$ 200,030	\$ 372,237	\$ 260,778	\$ -	\$ 703,690	\$ 1,485,571	\$ 1,164,498
2014-15	1,120,056	159,314	375,515	251,802	-	726,264	1,495,571	1,137,380
2015-16	1,140,500	145,202	365,071	241,936	-	722,379	1,505,571	1,109,517
2016-17	1,154,256	132,098	375,315	231,693	-	717,824	1,529,571	1,081,615
2017-18	1,163,653	119,152	385,918	221,090	-	712,833	1,549,571	1,053,075
2018-19	1,181,719	104,851	397,852	198,044	-	707,431	1,579,571	1,010,326
2019-20	1,195,337	89,040	411,235	195,774	-	701,514	1,606,572	986,328
2020-21	1,211,183	70,515	425,387	181,620	-	695,354	1,636,570	947,489
2021-22	1,222,460	59,006	440,626	166,383	-	688,868	1,663,086	914,257
2022-23	1,239,621	47,461	456,950	150,058	-	681,999	1,696,571	879,518
2023-24	1,072,300	36,603	474,271	129,067	-	673,342	1,546,571	839,012
2024-25	1,083,494	26,477	493,077	113,931	-	662,541	1,576,571	802,949
2025-26	934,955	17,949	496,616	93,897	-	651,066	1,431,571	762,912
2026-27	755,054	13,014	451,517	73,634	3,154,869	639,167	4,361,440	725,815
2027-28	289,542	10,120	395,458	52,934	-	31,797	685,000	94,851
2028-29	292,161	7,445	417,837	30,555	-	18,654	709,998	56,654
2029-30	290,724	4,063	334,274	9,402	-	5,906	624,998	19,371
2030-31	25,000	1,420	-	-	-	-	25,000	1,420
2031-32	20,555	441	-	-	-	-	20,555	441
	<u>\$ 16,505,904</u>	<u>\$ 1,244,201</u>	<u>\$ 7,069,156</u>	<u>\$ 2,602,598</u>	<u>\$ 3,154,869</u>	<u>\$ 9,740,629</u>	<u>\$ 26,729,929</u>	<u>\$ 13,587,428</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2013 is as follows:

School Building Revenue Bonds	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
2004	\$ 70,000	\$ -	\$ 25,000	\$ 45,000
2004	1,425,000	-	1,255,000	170,000
2005	2,660,000	-	2,270,000	390,000
2007	1,790,000	-	195,000	1,595,000
2009	8,235,000	-	310,000	7,925,000
2011	11,353,429	-	546,570	10,806,859
2011K	362,070	-	19,000	343,070
2012R	1,935,000	-	110,000	1,825,000
2013	-	3,655,000	25,000	3,630,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 27,830,499</u>	<u>\$ 3,655,000</u>	<u>\$ 4,755,570</u>	<u>\$ 26,729,929</u>

8. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS website at <http://www.ktrs.ky.gov/>.

Funding policy – Contribution rates are established by KTRS. Members contribute 10.855% of their salaries to KTRS. Employer's contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees were 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members or eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008 contribute 1.25% of their salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.00% of members' salary for the 2012-2013 fiscal year.

County Employees Retirement System

Substantially all other employees (full-time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

8. RETIREMENT PLANS-CONTINUED

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 19.55% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$13,946,227. The payroll for employees covered under KTRS was \$10,435,953 and for CERS was \$3,336,518.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2013, 2012 and 2011 was \$1,488,166, \$1,349,895, and \$1,462,680, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2013, 2012, and 2011 were \$825,728, \$787,659, and \$802,929, respectively. The District met their contribution requirements.

9. LEASES

As of June 30, 2013, the District had not entered into any material operating lease agreements..

10. CONTINGENCIES

Grants - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2013 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Kentucky School Boards Insurance Trust (KSBIT)-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits: however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT will be considering the following actions as part of a corrective action plan required by law.

- An assessment under a fair methodology to be approved by the Kentucky Department of Insurance of current and past participating members to fund the deficit.
- As applicable, a financing option that will give participating districts the choice of paying their portion, if any, of the assessment over a twenty-year period.
- The KSBIT self-insurance Pools will no longer accept new or renewal business after January 2013.
- While these are still viable considerations, on November 7, 2013 the Kentucky Department of Insurance (DOI) filed petitions in Franklin Circuit Court asking that two of the Kentucky School Boards Insurance Trust's self-insured funds be placed in rehabilitation, which means DOI will directly manage the funds.

10. CONTINGENCIES-CONTINUED

As of the date of this report, KSBIT has proffered several estimate methodologies over a broad range. Neither methodology has been accepted by the Kentucky Department of Insurance and a reasonable estimate of each districts' liability is not known nor has a payment amount been mandated to the school districts. In addition, the management of the Jackson County School District cannot reasonably estimate the outcome of this issue

Based on the current information available, there is a reasonable possibility that the Jackson County School District will be required to pay some part of the deficit. However, at this time, no reasonable or acceptable estimate is available; therefore no liability is recorded in the financial statements regarding this issue. The management of the District does believe it will not incur significant adverse effects whatever the disposition of this issue.

11. LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

12. IMPLEMENTATION OF GASB STATEMENT NO. 63

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. This standard established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, "net position," instead of the previously used wording of "net assets" and resulted in only a formatting change in the current year.

13. RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

14. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2013. However, there may be funds with deficit operating balances.

15. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. There were no instances of noncompliance noted.

JACKSON COUNTY SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
 Year ended June 30, 2013

16. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 30,517
Operating	Capital Outlay	General	COFT	280,681
Operating	FSPK	General	COFT	137,018
Operating	FSPK	Debt Service	Debt service	1,305,827
Operating	FSPK	Constuction	Construction	41
Operating	General	Constuction	Construction	25,882

17. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2013, there were no interfund balances outstanding that are reflected in the financial statements.

18. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 841,195
Health and Life insurance	2,776,890
Other	133,722
Technology	62,813
Debt Service	633,791
	<u>\$ 4,448,411</u>

19. FUND BALANCE DESIGNATIONS

The following funds had non-spendable fund balances as follows:

Fund	Amount	Purpose
General	\$ 132,776	Supplies inventory

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
Construction	\$ 1,009,714	Construction

19. FUND BALANCE DESIGNATIONS-CONSTRUCTION

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
General	\$ 15,000	Sick Leave Retirement Benefit

The following funds had assigned fund balances as follows:

Fund	Amount	Purpose
General	\$ 835,064	Largest portion for Section 7 (teacher staffing above the allotment), bus budget, and new reading series for Kindergarten through 6th grade

20. PRIOR PERIOD ADJUSTMENT NOTE

Net position, 6/30/12	\$ 18,601,719
Prior period adjustment-cash	<u>(1,167)</u>
Restated net position, 6/30/12	<u>\$ 18,600,552</u>
Fund balance, 6/30/12	\$ 7,013,352
Prior period adjustment-cash	<u>(1,167)</u>
Restated net position, 6/30/12	<u>\$ 7,012,185</u>

21. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 1,324,450	\$ 1,324,450	\$ 1,432,133	\$ 107,683
Motor vehicle	297,527	297,527	350,684	53,157
Utility	550,000	550,000	656,715	106,715
Other	-	-	97,992	97,992
Earnings on investments	17,000	17,000	9,672	(7,328)
Other local	5,150	5,150	83,046	77,896
Intergovernmental - State	14,273,785	14,273,785	14,812,025	538,240
Intergovernmental - Federal	33,000	33,000	33,062	62
Total revenues	<u>16,500,912</u>	<u>16,500,912</u>	<u>17,475,329</u>	<u>974,417</u>
Expenditures				
Current:				
Instruction	9,943,927	9,943,927	9,826,083	117,844
Student	1,078,688	1,078,688	973,940	104,748
Instructional staff	540,482	540,482	521,667	18,815
District administration	1,013,007	1,013,007	735,608	277,399
School administration	641,067	641,067	651,584	(10,517)
Business operations	514,607	514,607	499,592	15,015
Plant operations and maintenance	2,005,789	2,005,789	1,777,745	228,044
Student transportation	2,386,404	2,386,404	2,196,584	189,820
Community service	12,380	12,380	7,983	4,397
Debt service	107,449	107,449	81,567	25,882
Total expenditures	<u>18,243,800</u>	<u>18,243,800</u>	<u>17,272,353</u>	<u>971,447</u>
Excess (deficit) of revenues over (under) expenditures	(1,742,888)	(1,742,888)	202,976	1,945,864
Other financing sources (uses)				
Proceeds form sale of assets	1,000	1,000	6,811	5,811
Transfers in	417,699	417,699	417,699	-
Transfers out	(42,000)	(42,000)	(56,399)	(14,399)
Total other financing sources (uses)	<u>376,699</u>	<u>376,699</u>	<u>368,111</u>	<u>(8,588)</u>
Net change in fund balance	(1,366,189)	(1,366,189)	571,087	1,937,276
Fund balance as of June 30, 2012	<u>1,872,640</u>	<u>1,872,640</u>	<u>2,032,748</u>	<u>160,108</u>
Fund balance as of June 30, 2013	<u>\$ 506,451</u>	<u>\$ 506,451</u>	<u>\$ 2,603,835</u>	<u>\$ 2,097,384</u>

JACKSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - SPECIAL REVENUE FUND

Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ 2,980	\$ 2,980	\$ 6,002	\$ 3,022
Intergovernmental - State	1,655,056	1,655,056	1,527,568	(127,488)
Intergovernmental - Federal	3,194,110	3,194,110	3,364,856	170,746
Total revenues	<u>4,852,146</u>	<u>4,852,146</u>	<u>4,898,426</u>	<u>46,280</u>
Expenditures				
Current:				
Instruction	3,376,180	3,376,180	3,514,785	(138,605)
Student	75,698	75,698	52,559	23,139
Instructional support	1,050,486	1,050,486	918,653	131,833
School administration	4,473	4,473	6,856	(2,383)
Business operations	-	-	7,533	(7,533)
Student transportation	96,989	96,989	138,378	(41,389)
Community service	290,320	290,320	290,881	(561)
Community service	-	-	300	(300)
Total expenditures	<u>4,894,146</u>	<u>4,894,146</u>	<u>4,929,945</u>	<u>(35,799)</u>
Deficit of revenues under expenditures	<u>(42,000)</u>	<u>(42,000)</u>	<u>(31,519)</u>	<u>10,481</u>
Other financing sources				
Proceeds from sale of assets	-	-	1,002	1,002
Operating transfers in	42,000	42,000	30,517	(11,483)
Total other financing sources	<u>42,000</u>	<u>42,000</u>	<u>31,519</u>	<u>(10,481)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2013

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget. The working budget was amended during the year.

JACKSON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2013

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Total Non-major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES				
Fund Balances:				
Restricted	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	-	-
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

JACKSON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2013

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 378,862	\$ -	\$ 378,862
Earnings on investments	-	-	-	-
Intergovernmental - State	193,043	1,020,696	633,791	1,847,530
Intergovernmental - Federal	-	-	706,630	706,630
	<u>193,043</u>	<u>1,399,558</u>	<u>1,340,421</u>	<u>2,933,022</u>
Total revenues				
	<u>193,043</u>	<u>1,399,558</u>	<u>1,340,421</u>	<u>2,933,022</u>
Expenditures				
Debt service	-	-	2,646,248	2,646,248
	<u>-</u>	<u>-</u>	<u>2,646,248</u>	<u>2,646,248</u>
Total expenditures				
	<u>-</u>	<u>-</u>	<u>2,646,248</u>	<u>2,646,248</u>
Other financing sources (uses)				
Bond principal proceeds	-	-	3,655,000	3,655,000
Bond premium	-	-	38,091	38,091
Deposits with escrow agents	-	-	(3,648,223)	(3,648,223)
Debt issuance costs	-	-	(44,868)	(44,868)
Transfers in	-	-	1,305,827	1,305,827
Transfers out	(280,681)	(1,442,886)	-	(1,723,567)
	<u>(280,681)</u>	<u>(1,442,886)</u>	<u>1,305,827</u>	<u>(417,740)</u>
Total other financing sources (uses)				
	<u>(280,681)</u>	<u>(1,442,886)</u>	<u>1,305,827</u>	<u>(417,740)</u>
Net change in fund balance	(87,638)	(43,328)	-	(130,966)
Fund balance as of June 30, 2012	87,638	43,328	1,167	132,133
Prior period adjustment	-	-	(1,167)	(1,167)
Fund balance as of June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

JACKSON COUNTY BOARD OF EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
 Year Ended June 30, 2013

School/ Activity Fund	Cash and Equivalents June 30, 2012	Receipts	Disbursements	Cash and Cash Equivalents June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
McKee Elementary School	\$ 56,485	\$ 68,868	\$ 67,502	\$ 57,851	\$ -	\$ -	\$ 57,851
Sand Gap Elementary School	1,228	30,741	30,860	1,109	-	-	1,109
Tyner Elementary School	39,229	77,528	80,499	36,258	-	-	36,258
Jackson County Middle School	17,730	127,223	128,852	16,101	-	-	16,101
Totals	\$ 114,672	\$ 304,360	\$ 307,713	\$ 111,319	\$ -	\$ -	\$ 111,319

JACKSON COUNTY BOARD OF EDUCATION
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 JACKSON COUNTY HIGH SCHOOL ACTIVITY FUND
 Year ended June 30, 2013

	Fund Balances		Receipts		Disbursements		Transfers		Cash and Cash		Accounts		Fund	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	In	Out	Equivalents	Receivable	Payable	June 30, 2013	June 30, 2013	Balances
	\$	\$	\$	\$	\$	\$			June 30, 2013					
Academic Team	-	698	161	4,961	85	-	-	-	76	-	-	76	-	76
Volleyball	-	-	-	-	5,550	-	-	-	109	-	-	109	-	109
Junior Boys	-	-	-	-	2,456	2,456	-	-	-	-	-	-	-	-
Boys Basketball GP	4,847	-	14,375	-	19,940	718	-	-	-	-	-	-	-	-
Boys Basketball GP Trip	1,500	-	40,238	-	47,015	5,277	-	-	-	-	-	-	-	-
Girls Basketball	1,491	-	6,993	-	12,012	4,142	-	-	614	-	-	614	-	614
Bank/Drama	195	-	185	-	270	-	-	-	110	-	-	110	-	110
Baseball	3,764	-	5,911	-	8,189	-	1,188	-	298	-	-	298	-	298
Softball	-	-	20,536	-	19,397	-	590	-	549	-	-	549	-	549
Beta Club	-	-	375	-	364	-	-	-	11	-	-	11	-	11
Regional FFA	-	-	12,095	-	15,860	3,765	-	-	-	-	-	-	-	-
Cheerleaders	131	-	11,334	-	11,917	452	-	-	-	-	-	-	-	-
Yearbook	140	-	7,619	-	10,310	4,116	-	-	1,565	-	-	1,565	-	1,565
Dance Team	-	-	787	-	513	-	-	-	274	-	-	274	-	274
Archery	-	-	1,255	-	1,179	-	-	-	76	-	-	76	-	76
School Store	238	-	2,108	-	2,939	614	-	-	21	-	-	21	-	21
Horse Show	75	-	6,146	-	3,524	-	-	2,697	-	-	-	-	-	-
Future Farmers of America	-	-	35,535	-	34,135	-	-	1,400	-	-	-	-	-	-
FCCLA	-	-	20	-	392	372	-	-	-	-	-	-	-	-
FBLA	28	-	1,077	-	944	554	-	-	715	-	-	715	-	715
General Fund	5,120	-	44,063	-	42,570	5,527	-	-	1,086	-	-	1,086	-	1,086
Cross Country	-	-	-	-	40	40	-	-	-	-	-	-	-	-
National Honor Society	18	-	600	-	691	73	-	-	-	-	-	-	-	-
Youth Service Center	504	-	1,780	-	1,581	703	-	-	-	-	-	-	-	-
JROTC	2,869	-	6,705	-	6,572	2,090	-	-	912	-	-	912	-	912
Library Department	80	-	610	-	120	-	-	-	570	-	-	570	-	570
Pep Club	-	-	304	-	300	-	-	-	4	-	-	4	-	4
Student Book Club	-	-	453	-	-	-	-	-	453	-	-	453	-	453
Girls Golf	1,087	-	5,047	-	1,884	172	-	-	4,078	-	-	4,078	-	4,078
Boys Golf	2,256	-	7,912	-	7,226	2,605	-	-	337	-	-	337	-	337
Seniors	-	-	33,397	-	32,678	719	-	-	-	-	-	-	-	-
49th District Tourney	-	-	12,839	-	7,175	5,664	-	-	-	-	-	-	-	-
Teacher's Lounge	-	-	3,955	-	3,828	127	-	-	-	-	-	-	-	-

JACKSON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
JACKSON COUNTY HIGH SCHOOL ACTIVITY FUND-CONTINUED
 Year ended June 30, 2013

	Fund Balances		Receipts	Disbursements	Transfers in	Transfers Out	Cash and Cash Equivalents		Accounts Receivable		Accounts Payable		Fund Balances June 30, 2013
	June 30, 2012	June 30, 2013					June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	
Prom	-	-	4,934	4,464	-	470	-	-	-	-	-	-	-
Football	1,338	-	25,782	27,939	873	-	54	-	-	-	-	-	54
Scholarships	-	-	500	-	500	-	1,000	-	-	-	-	-	1,000
Total accounts	\$ 26,379	\$ 26,379	\$ 320,592	\$ 334,059	\$ 23,952	\$ 23,952	\$ 12,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,912

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JACKSON COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553		
Fiscal Year 12		57611-05-Z	\$ 100,070
Fiscal Year 13		57611-05-Z	367,612
National School Lunch Program	10.555		
Fiscal Year 12		57511-02-Z	187,097
Fiscal Year 13		57511-02-Z	694,678
Summer Food Service Program for Children	10.559		
Fiscal Year 13		57411-23-Z	38,994
Passed Through State Department of Agriculture:			
National School Lunch Program	10.555		
Fiscal Year 13		51-4550	68,836
<i>Child Nutrition Cluster Total</i>			<u>1,457,287</u>
Total US Department of Agriculture			<u>\$ 1,457,287</u>
US Department of Health and Human Services			
Passed Through Kentucky River Foothills Development Council:			
Head Start	93.600		
Fiscal Year 11		04CH2164	\$ 12,546
Fiscal Year 13		04CH2164	111,186
Total US Department of Health and Human Services			<u>\$ 123,732</u>
US Department of Education			
Passed Through State Department of Education			
<i>Title I Cluster</i>			
Title I Grants to Local Educational Agencies	84.010		
Fiscal Year 12		35112-01-Z	\$ 272,786
Fiscal Year 12D		35112-01-Z	23,978
Fiscal Year 12M		35112-01-Z	16,265
Fiscal Year 12T		35112-01-Z	7,448
Fiscal Year 13		35113-01-Z	891,919
			<u>1,212,397</u>
Title I Grants to Local Educational Agencies	84.010A		
Fiscal Year 11		35111-11-Z	33,962
Fiscal Year 12		35112-11-Z	67,850
			<u>101,812</u>
Title I Grants to Local Educational Agencies	84.010A		
Fiscal Year 12		35112-11-Z	11,374
Fiscal Year 13		35113-11-Z	16,919
			<u>28,293</u>
<i>Title I Cluster Total</i>			<u>1,342,502</u>
School Improvement Grants	84.377A		
Fiscal Year 10B		35110-11-Z	81,142
Fiscal Year 10C		35110-11-Z	271,947
			<u>353,089</u>
<i>Special Education Cluster</i>			
Special Education_ Grants to States	84.027		
Fiscal Year 12		58110.02.Z	106,459
Fiscal Year 12P		58111.02.Z	952
Fiscal Year 13		58111.02.Z	430,346
Fiscal Year 13P		58112.02.Z	1,701
			<u>539,458</u>
Special Education_Preschool Grants	84.173		
Fiscal Year 12		58711.03.Z	24,710
Fiscal Year 13		58711.03.Z	24,589
			<u>49,299</u>
<i>Special Education Cluster Total</i>			<u>588,757</u>

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Career and Technical Education - Basic Grants to States Fiscal Year 13	84.048	33-540-3483	18,910
			<u>18,910</u>
Funds for Improvement of Education Fiscal Year 12	84.215P	5182	24,646
Fiscal Year 13		5183	321,663
			<u>346,309</u>
Improving Teacher Quality State Grants Fiscal Year 12	84.367	71012.02.Z	2,734
Fiscal Year 13		71012.02.Z	206,068
			<u>208,802</u>
Race to the Top Fiscal Year 11	84.413A	33-540-4521	9,931
			<u>9,931</u>
Rural Education Fiscal Year 12	84.358B	35011.02.Z	6,559
Fiscal Year 13		35012.02.Z	36,622
			<u>43,181</u>
Education Jobs Fund Fiscal Year 11	84.410	4411	4,567
			<u>4,567</u>
Passed through Ky Workforce Development Cabinet Adult Education - Basic Grants to States Fiscal Year 13	84.002	33-540-3652	6,461
Fiscal Year 13		33-540-3732	61,891
Fiscal Year 13S		33-540-3732S	862
			<u>69,214</u>
Passed through Eastern Kentucky University Gaining Early Awareness and Readiness for Undergraduate Programs Fiscal Year 12A	84.334A	33-540-3792A	710
Fiscal Year 12R		33-540-3792R	546
Fiscal Year 13A		33-540-3793A	146,520
Fiscal Year 13P		33-540-3793P	38,885
Fiscal Year 13R		33-540-3793R	6,151
			<u>192,813</u>
Total for US Department of Education			<u>\$ 3,178,075</u>
Appalachian Regional Commission Passed through Morehead State University Appalachian Research, Technical Assistance, and Demonstration Projects Fiscal Year 2013	23.011	6883	\$ 5,000
Total for Appalachian Regional Commission			<u>\$ 5,000</u>
US Department of Defense Junior Reserve Officers' Training Corps Fiscal Year 2013	12.000	5043	\$ 58,049
Passed through Army Corps of Engineers, Louisville Office: Wetland Waste Treatment Project Fiscal Year 2013	12.999	33-540-8020	142,796
Total US Department of Defense			<u>200,845</u>
Total Expenditure of Federal Awards			<u>\$ 4,964,939</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Jackson County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2013 is \$68,836.

3. CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Special Education – Grants to State, Recovery Act	84.391
Special Education – Preschool Grants, Recovery Act	84.392
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Summer Food Services for Children	10.559
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Jackson County School District
McKee, Kentucky

We have audited, in accordance with the 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 prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Jackson County School District's basic financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control over Financial Reporting

Management of Jackson County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Jackson County School District'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 Jackson County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Jackson County School District'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. 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 Jackson County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Jackson County School District
McKee, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Jackson County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jackson County School District's major federal programs for the year ended June 30, 2013. The Jackson County School District'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Jackson County School District'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County School District'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 Jackson County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Jackson County School District 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, 2013.

Report on Internal Control over Compliance

Management of Jackson County School District 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 Jackson County School District'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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jackson County School District'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Jackson County School District, as of and for the year ended June 30, 2013, and have issued our report thereon dated November 11, 2013, which contained unmodified opinions 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 the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statement notes	_____	Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Funds for Improvement of Education	84.215
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

Dollar threshold used to distinguish between Type A and Type B program \$300,000

Auditee qualified as low risk Yes _____ No

(continued)

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year ended June 30, 2013

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2013

Status of Prior Year Findings

There were no prior year audit findings

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
Jackson County School District
McKee, Kentucky

In planning and performing our audit of the basic financial statements of Jackson County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 11, 2013, on the basic financial statements of Jackson County School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2013

Prior Year Comments – School Activity Funds

1. At one school (Sand Gap Elementary) there was a lack of sufficient documentation with receipts.

This deficiency does not appear to have been corrected in the current year.

2. At four schools (Sand Gap Elementary, McKee Elementary, Jackson County High School, and Jackson County Middle School) Inventory Control Worksheets are not being completed monthly for concessions and in-school concessions.

This deficiency appears to have been corrected at McKee Elementary in the current year.

This deficiency does not appear to have been corrected at Sand Gap Elementary, Jackson County High School, and Jackson County Middle School.

3. At four schools (Sand Gap Elementary, McKee Elementary, Jackson County Middle School, and Jackson County High School), Multiple Receipt Forms are not always being used when a teacher or sponsor is collecting money from students.

This deficiency appears to have been corrected at McKee Elementary in the current year.

This deficiency does not appear to have been corrected at Sand Gap Elementary or Jackson County Middle School. There was a lack of sufficient documentation to determine if this deficiency was corrected at Jackson County High School.

4. At one school (Jackson County High School), there were several instances where bank deposits were not made timely.

There was a lack of sufficient documentation to determine if this deficiency was corrected at Jackson County High School.

5. At four schools (Sand Gap Elementary, McKee Elementary, Jackson County High School, and Jackson County Middle School) teachers/sponsors are not turning in money collected from students or other sources timely.

This deficiency appears to have been corrected at McKee Elementary and Sand Gap Elementary in the current year.

This deficiency does not appear to have been corrected at Jackson County Middle School. There was a lack of sufficient documentation to determine if this deficiency was corrected at Jackson County High School.

6. At one school (Sand Gap Elementary), monthly financial reports were not submitted timely to the central office for review.

This deficiency appears to have been corrected in the current year.

7. At one school (Jackson County High School), monthly financial cash reconciliations were not completed timely after receipt of the monthly bank statement.

This deficiency appears to have been corrected in the current year.

Current Year Comments –School Activity Funds

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

Sand Gap Elementary

1. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.
2. Ticket requisitions were not properly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event and documents are properly completed and signed.
3. Lack of sufficient documentation with receipts. Bookkeeper needs to keep Multiple Receipt Forms, Deposit tickets, and any deposit documentation together so it can be traced back to bank statements.
4. Multiple Receipt Forms were not used. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.
5. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders not being utilized and purchase orders not being properly filled out were noted.
6. Bookkeeper uses three pre-numbered purchase order books and does not use them in sequential order. This creates an issue where a missing purchase order would not be easily recognized. The pre-numbered documents should be used in proper order as part of internal control.
7. Inventory Control worksheets are not being used.

Tyner Elementary

8. Lack of sufficient documentation with receipts. Multiple receipt forms are not filed with deposit/receipt documents and therefore could not verify they were being properly used.
9. Invoices should be approved and have authorization before payment is made. Many instances of invoices not signed to indicate proper approval.

McKee Elementary

10. Invoices should be approved and have authorization before payment is made. Many instances of invoices not signed to indicate proper approval.

Jackson County High School

11. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.
12. Lack of sufficient documentation with receipts. Multiple receipt forms are not filed with deposit/receipt documents and therefore could not verify they were being used, could not verify timely deposits, could not verify proper classification of deposit, and could not trace to bank statement.
13. Inventory Control worksheets are not being used.

Current Year Comments –School Activity Funds-continued

Jackson County Middle School

14. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.
15. Multiple Receipt Forms were not used. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.
16. Expenditures using activity fund monies should be only used for the benefit of the students. It appears that expenditures were made that did not follow Redbook Guidelines, such as principal name and signature stamp, leaf blower, medicine for nurse station, paint rollers, paper, posit-it notes, and SBDM policy kits and bylaws. All expenditure guidelines prescribed in the Redbook must be followed.
17. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders dated after invoices were noted.
18. Inventory Control worksheets are not being used.

Management's Response to Current Year Findings

The district hired an independent consultant, Ron White, from White and Associates, P.S.C. to conduct a training session for all Principals and Secretaries on the updated revised guidelines of the Redbook prior to the new school year. In this session, we emphasized the importance of following all procedures as outlined in the Redbook in an effort to correct previous audit comments and conditions. As there have been several repeats of certain conditions, the district will have a consultant conduct individual internal audits with the High school, Middle school and Sand Gap Elementary this fiscal year as they have repeated findings. After the completion of the internal audits, the Finance Officer along with the consultant will administer corrective action training with each principal and secretary concerning their individual issues. If the same Statements of Conditions reoccur in consecutive years then principals will be placed on a Corrective Action plan.