

**Jackson Independent School District
Jackson, Kentucky**

**Audited Financial Statements
and Other Financial Information**

June 30, 2013

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SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee of School District Audits
Members of the Board of Education
Jackson Independent School District
Jackson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jackson Independent School District (the 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 and 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 *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and 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 Independent School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 8 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 Independent School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. 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 non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2013, on our consideration of Jackson Independent 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
December 15, 2013

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the **Jackson Independent** School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS/OVERALL DISTRICT HIGHLIGHTS

Our school district maintains a resolute focus on providing an exemplary education for our students and the community.

The district ranked among the top ten school districts on the newly Unbridled Learning Assessment and Accountability Testing System, a tremendous accomplishment for a district with limited resources. This feat demonstrates that districts can succeed with limited resources, good management decisions, and a caring, dedicated staff working together for the best interest of our children. The district ACT Composite score was 20.5 for the 2012-13 school year which ranked #1 in our region.

Our school received a GEARUP continuation grant through Berea College provided students and staff access to new programs, professional development, and additional staff members. Some highlights of the program include the following: promoted an energetic and enthusiastic staff member as Academic Specialist for students in grades 2-9, purchased twenty additional IPADS for our school, and designed professional development to improve student achievement, and increased college and career options for our students.

The district received continuation grants with our 21st Century Community Learning Center for the next three years and one year extensions with our Read to Achieve Grant and our Family Resource Youth Service Center. The district also continues to receive a GATES Innovative Grant through the Kentucky Department of Education to incorporate integrated teaching strategies within our school district. Even though the Read to Achieve grant funding was reduced, our district continued to fully fund the program for our students.

As with every year, this district offers all students opportunities to excel in extra-curricular activities in academics, chess, band, and Y Club. Sports teams offered during the year included: basketball, baseball, softball, track, soccer, golf, volleyball and cheerleading. High school students achieving scholastic requirements are members of the National Honor and Junior Honor Society.

Our 2013 graduating class of 20 seniors received at least \$400,000 in college/university scholarships. Among numerous other accomplishments by these seniors, this class included several students achieving an ACT score of 30 or better.

Our district continues to strive to overcome many obstacles especially with funding and decreased budget appropriations. The district has entered into a one year agreement with the county school district beginning with the 2013-2014 school year with stipulations on the number of students that can be enrolled that reside within the Breathitt County School District. The Jackson Independent Board of Education is committed to building a sound relationship with the State Managed Breathitt County System for the betterment of all children.

The diligent efforts of the community including the Mayor of Jackson, City Council Members, Breathitt County Judge, Fiscal Court Magistrates, parents, staff, students, private donors, and

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

the Jackson Independent Foundation have yielded a positive year end fund balance. The ending General Fund balance for fiscal year 2013 was \$121,328 as compared to (\$55,266) for fiscal year 2012.

Excluding loan proceeds, the General Fund had \$3.13 million in revenues, which primarily consisted of the State program (SEEK), property, utility, and motor vehicle taxes. Excluding inter-fund transfers, there were \$3.27 million in General Fund expenditures.

The District is fortunate to have community support through the Jackson Independent Educational Foundation, with fundraising events such as “The Holiday Bazaar”. Other financial accommodations with the local banking institutions provide services including a line of credit to off-set the federal and state programs reimbursement process. Other bond indebtedness was off-set by coal severance funding and private donations.

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 in addition 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. 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 principally 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 assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This 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 funds and fiduciary funds.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-20 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 notes to the financial statements can be found on pages 21-39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$926,423 as of June 30, 2013 as compared to \$814,015 in the prior year.

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 is still outstanding. The District uses 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 periods ending June 30, 2013 and 2012

	June 30, 2013	June 30, 2012	Change
Current Assets	\$198,974	\$254,274	(\$55,300)
Noncurrent Assets	2,606,439	2,741,332	(134,893)
Total Assets	\$2,805,413	\$2,995,606	(\$190,193)
Current Liabilities	\$280,938	\$495,656	(\$214,718)
Noncurrent Liabilities	1,629,393	1,724,400	(95,007)
Total Liabilities	\$1,910,331	\$2,220,056	(\$309,725)
Net position			
Investment in capital assets (net of debt)	\$890,639	\$834,071	\$56,568
Unrestricted	4,441	(58,521)	\$62,692
Total Net Position	\$895,080	\$775,550	\$119,530

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Comments on Budget Comparisons

General fund budget compared to actual revenue varied from line item to line item with the ending actual revenues being \$122,581 more than budget. General fund budget compared to actual expenditures varied from line item to line item with the ending actual expenditures being \$50,998 more than budget. The variances of the General Fund budget compared to actual revenue and expenses are mainly due to on-behalf payments made by the state for retirement, health and life benefits.

Total governmental revenues for the fiscal year ended June 30, 2013 net of interfund transfers, were \$4.139 million, an increase of \$165,147 from total revenues of \$3.974 million in 2012. Total governmental fund expenses for the fiscal year ended June 30, 2013, net of interfund transfers, were \$4.324 million, an increase of \$212,765 from total expenses of \$3.951 million in 2012.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2013 and 2012.

	Summary of Revenue and Expenditures					
	Governmental		Business-type		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Local revenue sources	\$552,143	\$372,746	\$53,345	\$57,051	\$605,488	\$429,797
State revenue sources	3,112,749	3,174,541	23,028	22,225	3,135,777	3,196,766
Federal revenue	467,946	426,030	181,885	188,962	649,831	614,992
Investments	180	266	100	39	280	305
Total revenue	4,133,018	3,973,583	258,358	268,238	4,391,376	4,241,821
Expenses:						
Instruction	2,612,600	2,624,760	0	0	2,612,600	2,591,679
Student support	18,618	16,226	0	0	18,618	16,226
Instructional support	74,701	74,576	0	0	74,701	74,576
District administration	223,440	303,916	0	0	223,440	298,488
School administration	165,411	156,758	0	0	165,411	156,758
Business Support	129,081	52,448	0	0	129,081	52,448
Plant operations	399,481	440,156	0	0	399,481	440,156
Student transportation	149,521	153,050	0	0	149,521	153,050
Community Service	36,348	42,961	0	0	36,348	42,961
Facilities acquisition	39,233	1,598	0	0	39,233	1,598
Interest on long-term	74,400	84,246	0	0	74,400	84,246
Food Service	0	0	265,840	281,957	265,840	281,957
Total expenses	3,922,834	3,950,695	265,840	281,957	4,188,674	4,232,652
KSBIT Payable	(121,637)	0	0	0	(121,637)	0
Change in net position	88,547	22,888	(7,482)	(13,680)	81,065	9,208
Beginning net position	775,550	752,662	38,465	52,145	814,015	804,807
Ending net position	\$864,097	\$775,550	\$30,983	\$38,465	\$895,080	\$814,015

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

Governmental Activities

Instruction comprises 67% of governmental program expenses. Plant Operations expense makes up 10% of government expenses. District and School Administration total 9% of governmental expenses. The remaining expenses for support services, community service activities, transportation and interest account for the final 14% of total governmental expense.

Business-Type Activities

The business-type activities include the food service operations. This program had total revenues of \$258,358 and expenses of \$265,840 for fiscal year 2013. Of the revenues, \$53,345 was charges for services, and \$204,913 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

Debt

At June 30, 2013, the School District had \$1,887,890 in debt outstanding; of this amount \$422,849 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$258,495 is due within one year.

Capital Assets

The Board added \$26,526 in new assets during the year, primarily for technology equipment.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, i.e. some federal 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 CERS retirement employer rate decreased to 18.89% beginning July 1, 2013, as mandated by State law. The KTRS retirement employer contribution to the retiree medical insurance fund is 1.50% and federally funded employees 14.605% as mandated. Federal Programs Health Insurance/Life Insurance reimbursements to the State of Kentucky are included in the District’s budget. For the upcoming FY13-14 school year, the district remains committed to maintaining the 185 day contracts for certified teachers. The District continues with this decision due to the General Assembly change to the maximum of 187 contract day funding and 0% raise allocations. Due to funding restraints, the district made the difficult decision to reduce a portion of the extra service positions funding, field trip and extra-curricular activity transportation expenses, and decrease staff contract days accordingly.

Effective for fiscal year 2013-14 management will submit federal cash request in a timely manner to expedite funding reimbursements. Management and the Board will review the operating budget and seek areas to reduce costs while maintaining a quality education. We will also aggressively pursue new grant funding and local community support. The Board and management believe these actions will establish an adequate cash reserve in fiscal year 2014 and future years. The District has received positive feedback from the community, faculty, staff, parents and students regarding the leadership initiatives of the current Superintendent, Mr. Kyle Lively. His goals for the continued success of our School District are uplifting as we plan for the next 100 years of the Jackson City School.

Questions regarding this report should be directed to Sandra Manns, Finance Director, (606) 666-4979 ext. 2002, or (606) 666-6891 or by mail at the Jackson Independent Board of Education, 940 Highland Ave., Jackson, KY 41339.

JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 0	\$ 0	\$ 0
Accounts receivable			
Taxes	15,577	0	15,577
Accounts	7,487	21,806	29,293
Intergovernmental - State	139,600	0	139,600
Inventory	0	14,504	14,504
Total Current Assets	<u>162,664</u>	<u>36,310</u>	<u>198,974</u>
Noncurrent Assets			
Bond discounts and issue costs net of accumulated amortization of \$30,877	43,717	0	43,717
Non-depreciated capital assets	579,118	0	579,118
Net depreciated capital assets	1,966,488	17,116	1,983,604
Total Noncurrent Assets	<u>2,589,323</u>	<u>17,116</u>	<u>2,606,439</u>
TOTAL ASSETS	\$ <u>2,751,987</u>	\$ <u>53,426</u>	\$ <u>2,805,413</u>
LIABILITIES:			
Current Liabilities			
Cash overdraft	25,222	10,467	35,689
Accounts payable	5,031	11,976	17,007
Unearned revenue	10,151	0	10,151
Accrued interest	20,354	0	20,354
Current portion of accrued sick leave	26,654	0	26,654
Current portion of bond obligations	146,432	0	146,432
Current portion of lease obligations	24,651	0	24,651
Total Current Liabilities	<u>258,495</u>	<u>22,443</u>	<u>280,938</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	1,360,623	0	1,360,623
Noncurrent portion of lease obligations	140,377	0	140,377
Noncurrent portion of accrued sick leave	6,758	0	6,758
KSBIT payable	121,637	0	121,637
Total Noncurrent Liabilities	<u>1,629,395</u>	<u>0</u>	<u>1,629,395</u>
TOTAL LIABILITIES	<u>1,887,890</u>	<u>22,443</u>	<u>1,910,333</u>
NET POSITION			
Invested in capital assets, net of related debt	873,523	17,116	890,639
Unrestricted	<u>(9,426)</u>	<u>13,867</u>	<u>4,441</u>
TOTAL NET POSITION	<u>864,097</u>	<u>30,983</u>	<u>895,080</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>2,751,987</u>	\$ <u>53,426</u>	\$ <u>2,805,413</u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 2,612,600	\$ 0	\$ 1,429,162	\$ 0	\$ (1,183,438)	\$ 0	\$ (1,183,438)
Support Services:							
Student	18,618	0	0	0	(18,618)	0	(18,618)
Instructional staff	74,701	0	12,722	0	(61,979)	0	(61,979)
District administration	223,440	0	29,685	0	(193,755)	0	(193,755)
School administration	165,411	0	21,204	0	(144,207)	0	(144,207)
Business	129,081	0	8,482	0	(120,599)	0	(120,599)
Plant operations and maintenance	399,481	0	29,685	0	(369,796)	0	(369,796)
Student transportation	149,521	0	12,722	0	(136,799)	0	(136,799)
Non-Instructional	36,348	0	64,376	0	28,028	0	28,028
Facilities acquisition and construction	39,233	0	0	0	(39,233)	0	(39,233)
Interest on long-term debt	74,400	0	0	47,144	(27,256)	0	(27,256)
Total Governmental Activities	3,922,834	0	1,608,038	47,144	(2,267,652)	0	(2,267,652)
Business-type Activities:							
Lunchroom sales	265,840	53,345	204,913	0	0	(7,582)	(7,582)
Total Primary Government	\$ 4,188,674	\$ 53,345	\$ 1,812,951	\$ 47,144	\$ (2,267,652)	\$ (7,582)	\$ (2,275,234)
General Revenues & Transfers:							
Taxes:							
Property					\$ 158,213	\$ 0	\$ 158,213
Motor vehicle					15,948	0	15,948
Utilities					159,113	0	159,113
State and formula grants					1,925,513	0	1,925,513
Interest and investment earnings					180	100	280
Miscellaneous					218,869	0	218,869
Total General Revenues & Transfers					2,477,836	100	2,477,936
Extraordinary Item - KSBIT assessment					(121,637)	0	(121,637)
Change in Net Position					88,547	(7,482)	81,065
Net Position - beginning					775,550	38,465	814,015
Net Position - ending					\$ 864,097	\$ 30,983	\$ 895,080

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	OTHER GOVERNMENTAL FUNDS NON-MAJOR	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash and cash equivalents	\$ 0	\$ 0	\$ 932	\$ 932
Accounts receivable				
Due from other funds	129,449	0	0	129,449
Taxes	15,577	0	0	15,577
Other	7,487	0	0	7,487
Intergovernmental	0	139,600	0	139,600
TOTAL ASSETS	\$ 152,513	\$ 139,600	\$ 932	\$ 293,045
LIABILITIES:				
Due to other funds	\$ 0	\$ 129,449	\$ 0	\$ 129,449
Cash overdraft	26,154	0	0	26,154
Accounts payable	5,031	0	0	5,031
Deferred revenue	0	10,151	0	10,151
TOTAL LIABILITIES	31,185	139,600	0	170,785
FUND BALANCES:				
Restricted				
Capital projects	0	0	932	932
Committed-Sick leave	16,706	0	0	16,706
Unassigned	104,622	0	0	104,622
TOTAL FUND BALANCES	121,328	0	932	122,260
TOTAL LIABILITIES AND FUND BALANCES	\$ 152,513	\$ 139,600	\$ 932	\$ 293,045

**JACKSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Governmental Fund Balances	\$	122,260
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		2,545,606
Certain assets are not reported in this fund financial statement because they are not available to pay current period expenditures, but they are in the statement of net position.		
Bond discounts and issuance costs		43,717
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position.		
Bonds payable		(1,507,055)
Capital lease payable		(165,028)
Accrued interest		(20,354)
Accrued sick leave		(33,412)
KSBIT payable		(121,637)
Net Position of Governmental Activities	\$	<u><u>864,097</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	OTHER GOVERNMENTAL FUNDS NON-MAJOR	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 140,519	\$ 0	\$ 17,694	\$ 158,213
Motor vehicle	15,948	0	0	15,948
Utilities	159,113	0	0	159,113
Earnings on investments	180	0	0	180
Other local revenues	224,581	0	0	224,581
Intergovernmental - State	2,555,575	324,805	203,733	3,084,113
Intergovernmental - Indirect federal	7,373	460,573	0	467,946
TOTAL REVENUES	3,103,289	785,378	221,427	4,110,094
EXPENDITURES:				
Current:				
Instruction:	1,760,940	737,171	0	2,498,111
Support Services:				
Student	2,093	14,250	0	16,343
Instructional staff	72,268	1,986	0	74,254
District administration	236,493	0	0	236,493
School administration	162,276	0	0	162,276
Business	100,447	0	0	100,447
Plant operations and maintenance	393,112	0	0	393,112
Student transportation	111,324	9,336	0	120,660
Non-instructional	0	36,348	0	36,348
Facilities acquisition and construction	0	0	58,616	58,616
Debt service	399,397	0	199,455	598,852
TOTAL EXPENDITURES	3,238,350	799,091	258,071	4,295,512
Excess (Deficit) of Revenues over Expenditures	(135,061)	(13,713)	(36,644)	(185,418)
OTHER FINANCING SOURCES (USES):				
Loan proceeds	340,000	0	0	340,000
Issuance of refunded debt	0	0	212,232	212,232
Payments to refund debt escrow agent	0	0	(212,232)	(212,232)
Operating transfers in	0	13,713	152,311	166,024
Operating transfers out	(28,345)	0	(137,679)	(166,024)
TOTAL OTHER FINANCING SOURCES (USES):	311,655	13,713	14,632	340,000
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	176,594	0	(22,012)	154,582
Fund balance - beginning	(55,266)	0	22,944	(32,322)
Fund balance - ending	<u>\$ 121,328</u>	<u>\$ 0</u>	<u>\$ 932</u>	<u>\$ 122,260</u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$	154,582
Amounts reported for governmental activities in the statement of activities are different because:		
Amortization of bond discounts and issuance costs are reported in the statement of activities but do not require current financial resources and therefore are not reported as expenditures in governmental funds.		(5,154)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in accrued interest		3,299
Change in accrued sick leave		18,003
Change in other liabilities		(121,637)
The book value of capital assets disposed of are reported on the government-wide statement of activities but not reported in the governmental funds.		(5,711)
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.		
Capital outlays		26,527
Depreciation expense		(167,669)
Long-term debt proceeds are reported as other financing resources in funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Debt proceeds		(550,350)
Debt principal repaid		<u>736,657</u>
Change in Net position of Governmental Activities	\$	<u>88,547</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL GENERAL FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2013**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 126,000	\$ 142,715	\$ 140,519	\$ (2,196)
Motor vehicle	23,000	16,000	15,948	(52)
Utilities	72,000	159,109	159,113	4
Earnings on investments	3,000	200	180	(20)
Other local revenues	38,900	97,485	224,581	127,096
Intergovernmental - State	1,908,994	2,584,584	2,555,575	(29,009)
Intergovernmental - Federal	0	9,251	7,373	(1,878)
TOTAL REVENUES	<u>2,171,894</u>	<u>3,009,344</u>	<u>3,103,289</u>	<u>93,945</u>
EXPENDITURES:				
Current:				
Instruction:	1,160,841	1,794,959	1,760,940	34,019
Support Services:				
Student	15,067	2,093	2,093	0
Instructional staff	47,653	72,481	72,268	213
District administration	371,194	362,172	236,493	125,679
School administration	144,738	174,351	162,276	12,075
Business	39,873	64,709	100,447	(35,738)
Plant operations and maintenance	345,592	395,120	393,112	2,008
Student transportation	91,612	127,308	111,324	15,984
Facilities acquisition and construction	0	0	0	0
Debt service	71,020	222,795	399,397	(176,602)
TOTAL EXPENDITURES	<u>2,287,590</u>	<u>3,215,988</u>	<u>3,238,350</u>	<u>(22,362)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(115,696)</u>	<u>(206,644)</u>	<u>(135,061)</u>	<u>71,583</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	0	340,000	340,000	0
Operating transfers out	(9,304)	(13,713)	(28,345)	(14,632)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(9,304)</u>	<u>326,287</u>	<u>311,655</u>	<u>(14,632)</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(125,000)	119,643	176,594	56,951
Fund balance - beginning	125,000	(55,266)	(55,266)	0
Fund balance - ending	<u>\$ 0</u>	<u>\$ 64,377</u>	<u>\$ 121,328</u>	<u>\$ 56,951</u>
Adjustments to Generally Accepted Accounting Principles:				
Intergovernmental State Revenue - On-behalf Payments			\$ 662,461	
Corresponding Expenses for On-behalf Payments:				
Instruction			(549,454)	
Support Services:				
Instructional staff			(12,986)	
District administration			(29,041)	
School administration			(20,867)	
Business			(7,929)	
Plant operations and maintenance			(30,559)	
Student transportation			(11,625)	
Fund balance - ending (GAAP Basis)			<u>\$ 121,328</u>	

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL SPECIAL REVENUE FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2013**

	SPECIAL REVENUE FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Intergovernmental - State	\$ 185,318	\$ 327,444	\$ 324,805	\$ (2,639)
Intergovernmental - Indirect federal	187,106	479,910	460,573	(19,337)
TOTAL REVENUES	<u>372,424</u>	<u>807,354</u>	<u>785,378</u>	<u>(21,976)</u>
EXPENDITURES:				
Current:				
Instruction:	314,135	754,390	737,171	17,219
Support Services:				
Student	13,950	14,250	14,250	0
Instructional staff	2,865	1,994	1,986	8
Student transportation	8,118	9,388	9,336	52
Non-Instructional	42,660	36,349	36,348	1
TOTAL EXPENDITURES	<u>381,728</u>	<u>816,371</u>	<u>799,091</u>	<u>17,280</u>
Excess (Deficit) of Revenues over Expenditures	<u>(9,304)</u>	<u>(9,017)</u>	<u>(13,713)</u>	<u>(4,696)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	9,304	9,017	13,713	4,696
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	<u>9,304</u>	<u>9,017</u>	<u>13,713</u>	<u>4,696</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0	0
Fund balance - beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance - ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

	<u>FOOD SERVICE FUND</u>
ASSETS:	
Current Assets	
Cash and cash equivalents	\$ 0
Accounts receivable	21,806
Inventory	<u>14,504</u>
Total Current Assets	36,310
Noncurrent Assets	
Machinery & equipment	99,957
Accumulated depreciation	<u>(82,841)</u>
Total Noncurrent Assets	17,116
 TOTAL ASSETS	 \$ <u>53,426</u>
 LIABILITIES:	
Current Liabilities:	
Cash overdraft	\$ 10,467
Accounts payable	<u>11,976</u>
Total Current Liabilities	<u>22,443</u>
 TOTAL LIABILITIES	 <u>22,443</u>
 NET POSITION:	
Invested in Capital Assets, net of related debt	17,116
Unrestricted	<u>13,867</u>
 TOTAL NET POSITION	 <u>30,983</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ <u>53,426</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>FOOD SERVICE FUND</u>
OPERATING REVENUES:	
Lunchroom sales	\$ 53,345
TOTAL OPERATING REVENUES	<u>53,345</u>
OPERATING EXPENSES:	
Salaries and wages	134,892
Contract services	2,851
Materials and supplies	124,930
Depreciation	<u>3,167</u>
TOTAL OPERATING EXPENSES	<u>265,840</u>
Operating Income (Loss)	(212,495)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	170,378
Federal commodities	11,507
State grants	23,028
Interest income	100
NON-OPERATING REVENUES (EXPENSES)	<u>205,013</u>
Change in Net Position	(7,482)
Net Position - beginning	<u>38,465</u>
Total net position - ending	<u><u>\$ 30,983</u></u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>FOOD SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 53,345
Cash paid to suppliers	(117,537)
Cash paid to employees	<u>(113,688)</u>
Net Cash Provided (Used) by Operating Activities	(177,880)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Governmental grants	172,081
Amounts paid to other funds	<u>5,699</u>
Net Cash Provided (Used) by Financing Activities	177,780
CASH FLOWS FROM NONCAPITAL INVESTING ACTIVITIES	
Interest income	<u>100</u>
Net Cash Provided (Used) by Financing Activities	100
 Net Increase (Decrease) in Cash and Cash Equivalents	 0
Cash and cash equivalents - beginning	<u>0</u>
Cash and cash equivalents - ending	<u><u>\$ 0</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (212,495)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation	3,167
Donated commodities	11,507
On-behalf payments	21,204
Changes in Assets and Liabilities:	
Inventories	5,056
Accounts payable	<u>(6,319)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (177,880)</u></u>
 Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 11,507
On-behalf payments	\$ 21,204

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>ACTIVITY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 41,421
Accounts Receivable	<u>0</u>
TOTAL ASSETS	<u><u>\$ 41,421</u></u>
LIABILITIES:	
Accounts payable	\$ 263
Due to student groups	<u>41,158</u>
TOTAL LIABILITIES	<u><u>\$ 41,421</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – REPORTING ENTITY

The Jackson Independent School Board (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 the Jackson Independent 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, as 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 the funds and account groups relevant to the operations of the Jackson Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself, such as Boosters Club, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. 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:

Blended Component Unit

Jackson Independent School District Finance Corporation - In a prior year, the Board of Education resolved to authorize the establishment of the Jackson Independent School District Finance Corporation (a non-stock, non-profit corporation organized under Section 162.385 of the School Bond Act and Chapter 273 and KRS 58.180) (the Corporation) as an agency of the District for financing the costs of school building improvements. The Board members of the Jackson Independent School District also comprise the corporation's Board of Directors.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

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 activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financials 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 financial statements and the statements of 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, with certain limited exceptions. 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 proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major 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 the 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.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

The District has the following funds:

I. Governmental Fund Types

(A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The Special Revenue Fund is a major fund.

(C) Capital Project 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 following are Capital Project Funds:

- 1) The Support Education Excellence in Kentucky (SEEK) Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions. This is a non major fund of the District.
- 2) The Facility Support Program of Kentucky 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. This is a non major fund of the District.
- 3) The Construction Fund accounts for funds from two sources. First funds generated by sales of bonds issues are used for various construction and renovation projects. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. There was no activity in this fund during the year. This is a non major fund of the District.
- 4) The Debt Service Fund accounts for financial resources used for payment of principal and interest and other debt related costs. This is a non major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

(A) The Food Service Fund accounts for school food service activities, including the National School Lunch Program, which is 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.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

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)

(A) 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 *Uniform program of Accounting for 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.

In the Government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. 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.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

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

Budgetary Process

The District's budgetary process accounts for certain transactions on a basis of accounting other than Generally Accepted Accounting Principals (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note 15 for these amounts which were not known by the District at the time the budget was adopted.

The District prepares its budget on the modified accrual basis of accounting which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per District policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end in accordance with state law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents

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

Inventory

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities are assigned values based on information provided by the USDA.

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property in the City. 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 tax bills paid prior to January 31st received a 2% discount. Property taxes received after February 28th are considered delinquent and subject to penalty. Accounts which are delinquent six months after March 31st are turned over to a

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

collection agency. 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 assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.420 per \$100 valuation for real property, \$.420 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles.

The District levies a 3% utility tax on all businesses and households within the City.

Prepaid Assets

Payments made that will benefit periods beyond June 30 each 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 one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; but 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 expensed.

All reported capital assets 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:

Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

Bond Issue Costs

Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund advances 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 the accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire accrued sick leave liability is reported on the government-wide financial statements. 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 amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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, the non-current portion of capital leases, 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.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

Fund Balances

The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for fiscal year 2011 for its governmental funds. Fund balances for each of the District's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

Net Position

Net position represents the difference between assets and liabilities. Net position, invested in capital assets, net related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position may include a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District did not report any items in this category.

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (cont'd)

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 various schools. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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

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 in the financial statements and the accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements, effective for periods beginning after December 15, 2011, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements. The District implemented the new requirements for the fiscal year 2013 financial statements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, effective for periods beginning after December 15, 2011, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District implemented the new requirements for the fiscal year 2013 financial statements.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - CASH AND CASH EQUIVALENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk for deposits is the risk that in the event of bank failure the District's deposits may not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by the pledging banks' trust departments in the District's name. At year end, the carrying amount of the District's cash and cash equivalents was \$5,732. The bank balance for the same time was a balance of \$327,828.

The carrying amounts are reflected in the financial statements as follows:

Governmental Funds	(\$25,222)
Proprietary Funds	(10,467)
Fiduciary Funds	41,421
Total	<u>\$5,732</u>

Due to the nature of the accounts and certain limitations imposed on the use of the funds, each bank account within the following funds is considered to be restricted: Special Revenue Fund, SEEK Capital Outlay Fund, FSPK Building Fund, Construction Fund, Food Service Fund and School Activity Funds.

NOTE 4 - CAPITAL ASSETS

Depreciation expense was charged to functions of the governmental activities of the District as follows:

Governmental Activities:

Instruction	\$118,991
Support Services:	
Student	2,276
Instructional staff	446
District administration	5,949
School administration	3,134
Plant operations & maintenance	8,013
Student transportation	28,860
Total depreciation expense, governmental activities	<u>\$167,669</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 - CAPITAL ASSETS (cont'd)

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$579,118	\$0	\$0	\$579,118
Total capital assets not being depreciated	579,118	0	0	579,118
Other capital assets				
Land Improvements	180,213	0	0	180,213
Buildings & Improvements	3,382,253	0	(22,974)	3,359,279
Technological Equipment	594,403	5,500	(11,424)	588,479
Vehicles	422,812	0	(107,699)	315,113
General Equipment	179,757	21,027	0	200,784
Total other assets	4,759,438	26,527	(142,097)	4,643,867
Less accumulated depreciation for:				
Land Improvements	(61,219)	(6,017)	0	(67,236)
Buildings & Improvements	(1,741,489)	(94,058)	22,974	(1,812,573)
Technological Equipment	(460,246)	(31,479)	5,712	(486,013)
Vehicles	(226,474)	(29,180)	107,699	(147,955)
General Equipment	(156,668)	(6,935)	0	(163,603)
Total accumulated depreciation	(2,646,096)	(167,669)	136,385	(2,677,380)
Other capital assets, net	2,113,342	(141,143)	(5,712)	1,966,488
Governmental Activities, net	\$2,692,460	(\$141,144)	(\$5,712)	\$2,545,605
	Beginning Balance	Additions	Disposals	Ending Balance
Business Activities:				
Technological Equipment	\$11,280	\$0	\$0	\$11,280
General Equipment	88,677	0	0	88,677
Total	99,957	0	0	99,957
Less accumulated depreciation for:				
Technological Equipment	(11,280)	0	0	(11,280)
General Equipment	(68,394)	(3,167)	0	(71,561)
Total accumulated depreciation	(79,674)	(3,167)	0	(82,841)
Business Activities, net	\$20,283	(\$3,167)	0	\$17,116

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS

Bonds

The District, through the General Fund, the Building Fund, and the SEEK Capital Outlay Fund is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Jackson Independent School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996, the District entered into "Participation agreements" with the Kentucky School Facilities Construction Commission the (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The commission will remit a stated amount of bond principal and interest payments annually, subject to biennial approval by the Kentucky General Assembly. Approval has been received for the biennial fiscal period ended June 30, 2013. Should approval not be received in future period, the District remains obligated for the full amount of the bond principal and interest payments. 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.

On May 15, 2001, the District sold \$95,747 of Qualified Zone Academy Bonds (QZAB). QZAB's are financing instruments that are used to finance renovations and repairs to schools, with the federal government providing the interest payment and the school district being responsible for the repayment of principal only.

Requirements of the QZAB program are as follows: The District must form a partnership with a private entity that will donate 10 percent of the net present value of the bond issue, which can be by cash donations, services for students, training for teachers or providing property or equipment to the school, and the QZAB funds must benefit an academic program that will have the goal of enhancing the academic curriculum, increasing graduation and employment rates, or better preparing students for college and the workforce. QZAB's can be used for renovation and modernization to an existing school structure, but cannot be used for new construction. The District entered into a partnership with the Jackson Independent Educational Assistance Foundation, Inc., who contributes 10% of the net present value of the bond issue, which is approximately \$958 per year. The District makes semi-annual deposits of \$2,591 into a sinking fund account to meet their funding requirements for the payback of principal. The semi-annual deposits are scheduled to be made each December 5 and June 5 with the first deposit made December 5, 2001 and the last deposit on June 5, 2015.

The original amount of each bond issue, the issue date, interest rates, maturity dates and outstanding balances are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Balance June 30, 2013</u>
2001 – QZAB	\$95,747	Not Applicable	6/5/2015	\$12,955
2004	925,000	3.00-3.63%	7/1/2015	285,000
2007	785,000	3.00-3.63%	8/1/2025	690,000
2010	375,000	3.850%	1/1/2030	330,000
2012	210,350	2.00-3.00%	6/1/2022	189,100
	<u>\$2,391,097</u>			<u>\$1,507,055</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

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

YEAR	Jackson Independent School District		Kentucky School Construction Commission		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2014	\$112,770	\$36,491	\$30,612	\$15,941	\$198,864
2015	113,989	32,730	31,193	14,767	195,879
2016	120,791	28,754	31,800	13,568	194,913
2017	76,295	25,541	23,705	12,508	128,049
2018	79,858	23,098	24,042	11,594	134,692
2019-23	370,503	74,883	121,497	43,617	639,400
2024-28	210,000	12,837	110,000	22,908	355,745
2029-30	0	0	50,000	2,888	52,888
	<u>\$1,084,206</u>	<u>\$234,334</u>	<u>\$422,849</u>	<u>\$137,791</u>	<u>\$1,900,430</u>

Advance Refunding

In July, 2012, the District issued \$210,350 of general obligation refunding bonds, Series 2012R, with an average interest rate of 2.225%. The bonds consist of serial bonds bearing various fixed rates ranging from 2.0% to 3.0% with annual maturities from December 15012 through June 2022. The net proceeds of \$207,888 (after issuance costs of \$4,344 less premium of \$1,882) were used to advance refund various series of bonds with a total outstanding principal amount of \$205,000 and an average interest rate of 4.78%. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

The advance refunding was done in order to reduce debt payments in the short-term. The refunding decreased the District's total debt service payments by \$26,311. The transaction resulted in an economic loss (difference between the present value of the debt service on the old and the new bonds) of \$2,888.

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased debt is not included in these financial statements. Outstanding at June 30, 2013 are the following amounts of debt, which are considered defeased.

- \$261,313 - School Building Revenue Bonds Series 1995
- \$650,000 - School Building Revenue Bonds Series 2000
- \$50,000 - KISTA Series 2002
- \$140,000 - KADD Series 2002

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

Capital Leases

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These leases qualify as capital leases for accounting purposes and therefore, have been reported at the present value of their future minimum lease payments as of the inception date. Following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2014	\$29,568
2015	29,641
2016	29,815
2017	22,837
2018	22,798
2019-2021	<u>60,630</u>
Total minimum lease payments	\$188,289
Less: Amount of interest	<u>(23,261)</u>
Present value of net minimum Lease Payments	<u><u>\$165,028</u></u>

The following is an analysis of the leased property under capital leases by class:

<u>Class of Property</u>	<u>Amount</u>
Buses	\$263,696
Less: Accumulated Depreciation	<u>(96,859)</u>
	<u><u>\$166,837</u></u>

KSBIT Payable

The Kentucky School Board Insurance Trust (KSBIT) notified the District during the year that its self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required, under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members, to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of insurance using the novation option of funding. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will take over the future responsibility for all present and future claims. The District's liability under the novation method would be \$121,637. The District will have the option to make a lump-sum payment of its assessment or to finance the liability over 20 years. The plan is still subject to approval, and no payment is expected for the year ending June 30, 2014. The District has recorded this estimated amount in its long-term obligations since payment is probable and is included as an extraordinary item on the statement of activities.

Line of Credit

During the year, the District obtained a line of credit for \$300,000 with Citizens Bank & Trust Co. of Jackson, which is due to expire December 31, 2013. Advances and repayments totaled \$340,000, thus the outstanding balance at June 30, 2013 was \$0.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2013:

	Beginning Balance	Additions	Payments	Ending Balance	Due Within One Year
Bonds	\$1,658,980	\$210,350	\$362,275	\$1,507,055	\$146,432
Capital Leases	199,410	0	34,382	165,028	24,651
Line of Credit	0	340,000	340,000	0	0
KSBIT	0	121,637	0	121,637	0
Sick Leave	82,757	3,963	53,308	33,412	26,654
Total	<u>\$1,941,147</u>	<u>\$675,950</u>	<u>\$789,965</u>	<u>\$1,827,132</u>	<u>\$197,737</u>

NOTE 6 – COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide for the minimum future rental payments as of June 30, 2013 as follows:

Year Ending June 30,	Amount
2014	18,551
2015	18,218
2016	11,702
	<u>\$48,471</u>

Rent expense for the year ended June 30, 2013 was \$22,212.

NOTE 7 – RETIREMENT PLANS

Kentucky Teacher's Retirement System

The District contributes to the Kentucky Teachers' Retirement System (KTRS), a cost-sharing, multiple-employer, defined benefit pension plan, for the District's certified employees. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires members of KTRS to occupy a position requiring either a four year degree or certification by the KY 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 the financial statements and required supplementary information for the defined benefit plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

Funding policy - Contribution rates for KTRS are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program that pays for salaries also pays the matching contributions.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – RETIREMENT PLANS (cont'd)

The District's total payroll for the year was \$1,971,425. The payroll for employees covered under KTRS was \$1,585,384. For the years ended June 30, 2013, 2012 and 2011, the Commonwealth contributed \$190,494, \$222,367 and \$221,845, respectively for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were \$218,830, \$183,955 and \$175,320, respectively, which represented those employees covered by federal programs.

County Employees' Retirement System

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death and disability benefits to Plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State Legislature. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute either 5% or 6% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. The current rate is 19.55% of the employee's total compensation. The contribution requirement for CERS for the years ended June 30, 2013, 2012 and 2011 were \$156,733 (which consisted of \$124,306 from the District and \$32,427 from the employees), \$149,066 and \$135,745.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. A copy of the annual report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling (502) 564-4646.

Other Retirement Plans

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. Employee contributions made to these plans during the year totaled \$22,314. The District does not contribute to these plans.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – RETIREMENT PLANS (cont'd)

and liabilities on its financial statements. Employee contributions made to this plan during the year totaled \$71,030. The District does not contribute to this plan.

Medical Insurance Plan

Plan description - 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 and 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-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. 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 1.0% of members' salary for the 2012-2013 fiscal year.

NOTE 8 – 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 termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. At June 30, 2013, this amount totaled \$33,412. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

NOTE 9 - INSURANCE AND RELATED ACTIVITIES

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 are covered through the purchase of commercial insurance. The District has purchased certain retrospectively rated policies, which include worker's compensation insurance.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 - CONTINGENCIES

Funding for the District's Grant Funds is provided by federal, state and local government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantor may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. 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 grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain worker's compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund (Fund). These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage for any reason by giving ninety days notice. In the event the Trust terminated coverage, any amount remaining in the Fund would be returned to the member on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past several fiscal years.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE – 12 – DEFICIT OPERATING FUND BALANCES

During the year, the Construction Fund and the Food Service Fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a reduction of fund balance of \$22,012 and \$7,482, respectively.

NOTE 13 - 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 (contingency).

NOTE 14 – INTERFUND TRANSACTIONS

At June 30, 2013, the interfund status of payables and receivables (all current) of the various funds of the district are in the following table. All balances are expected to be settled within the next fiscal year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$129,449

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology	\$13,713
Capital Outlay	Debt Service	Debt Service	\$18,300
General	Debt Service	Debt Service	\$14,632
Building	Debt Service	Debt Service	\$119,379

NOTE 15 - ON-BEHALF PAYMENTS

The Commonwealth of Kentucky contributes funds on-behalf of the District for medical insurance and related expenses, pension contributions and vocational education. The School Facilities Construction Commission contributes funds for the retirement of bonds and payment of interest on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts as reported on the statement of activities and in the actual column on the budgetary comparison schedule. However, these amounts were not budgeted by the District. As a result, the actual expenditures for the General fund exceeded budgeted amounts, as presented on page 15. Contributions made on-behalf of the District for the year ended June 30, 2013 were:

Insurance and related expenses	\$424,075
Pension contributions	191,450
Technology	35,740
Bond retirement and interest	47,144
Total on-behalf payments	<u>\$698,409</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16 – LITIGATION

The District is subject to several legal actions in various stages 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 combined financial statements as a result of the cases presently in progress.

NOTE 17 – RELATED PARTY TRANSACTIONS

The District maintains bank accounts (see Note 3) and has outstanding bond obligations (see Note 5) with The First National Bank of Jackson. Board members are employee/shareholders of the bank. These Board members abstain from voting on any related party transactions.

JACKSON INDEPENDENT SCHOOL DISTRICT
SUPPLEMENTAL INFORMATION

**JACKSON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013**

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 0	\$ 932	\$ 0	\$ 0	\$ 932
TOTAL ASSETS	<u>\$ 0</u>	<u>\$ 932</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 932</u>
LIABILITIES:					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES:					
Restricted	<u>0</u>	<u>932</u>	<u>0</u>	<u>0</u>	<u>932</u>
TOTAL FUND BALANCES	<u>0</u>	<u>932</u>	<u>0</u>	<u>0</u>	<u>932</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 0</u>	<u>\$ 932</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 932</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 0	\$ 17,694	\$ 0	\$ 0	\$ 17,694
Intergovernmental - State	37,683	118,906	0	47,144	203,733
TOTAL REVENUES	<u>37,683</u>	<u>136,600</u>	<u>0</u>	<u>47,144</u>	<u>221,427</u>
EXPENDITURES:					
Facilities acquisition and construction	19,383	17,221	22,012	0	58,616
Debt service	0	0	0	199,455	199,455
TOTAL EXPENDITURES	<u>19,383</u>	<u>17,221</u>	<u>22,012</u>	<u>199,455</u>	<u>258,071</u>
Excess (Deficit) of Revenues over Expenditures	<u>18,300</u>	<u>119,379</u>	<u>(22,012)</u>	<u>(152,311)</u>	<u>(36,644)</u>
OTHER FINANCING SOURCES (USES):					
Issuance of refunded debt	0	0	0	212,232	212,232
Payments to refund debt escrow agent	0	0	0	(212,232)	(212,232)
Operating transfers in	0	0	0	152,311	152,311
Operating transfers out	(18,300)	(119,379)	0	0	(137,679)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(18,300)</u>	<u>(119,379)</u>	<u>0</u>	<u>152,311</u>	<u>14,632</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	(22,012)	0	(22,012)
Fund balance - beginning	0	932	22,012	0	22,944
Fund balance - ending	<u>\$ 0</u>	<u>\$ 932</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 932</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

ACCOUNTS:	Cash			Accounts			Accounts			Fund		
	Balances			Balances	Receivable	Payable	Balances			Balances		
	July 1, 2012	Receipts	Disbursements	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
MS Baseball	\$ 50	\$ 642	\$ 410	\$ 282	\$ 0	\$ 0	\$ 0	\$ 0	\$ 282			
SN Club	100	186	281	5	0	0	0	0	5			
Fifth Grade	141	0	104	37	0	0	0	0	37			
General	806	13,774	12,305	2,275	0	0	0	0	2,275			
Principal	1	0	0	1	0	0	0	0	1			
MS Science Fund	709	240	200	749	0	0	0	0	749			
Athletic	809	22,621	20,612	2,818	0	0	0	0	2,818			
Teachers Fund	844	3,516	3,565	795	0	0	0	0	795			
Math	106	30	50	86	0	0	0	0	86			
High School Y Club	1,552	3,784	2,685	2,651	0	0	0	0	2,651			
KUNA	0	0	0	0	0	0	0	0	0			
Children Inc	806	2,526	2,253	1,079	0	0	0	0	1,079			
Elementary Academics	20	4,627	3,767	880	0	0	0	0	880			
MS Boys Basketball	115	5,361	4,899	587	0	0	0	0	587			
HS Boys Basketball	7	0	0	7	0	0	0	0	7			
Academics	207	100	0	307	0	0	0	0	307			
STLP	12	0	0	12	0	0	0	0	12			
HS Softball	0	0	0	0	0	0	0	0	0			
TV Media	204	816	418	602	0	0	0	0	602			
Drama Class	15	305	0	320	0	0	0	0	320			
Annual	3,216	11,780	11,444	3,552	0	0	0	0	3,552			
Band	40	1,601	1,370	271	0	0	0	0	271			
Library	214	5,327	5,464	77	0	0	0	0	77			
Freshman Class	1,470	0	1,470	0	0	0	0	0	0			
Sophomore Class	5,433	0	5,433	0	0	0	0	0	0			
Junior Class	45	0	45	0	0	0	0	0	0			
Senior Class	125	2,487	2,501	111	0	0	0	0	111			
Eighth Grade	0	0	0	0	0	0	0	0	0			
Seventh Grade	139	0	49	90	0	0	0	0	90			
G.S. Cheerleaders	0	8,176	8,176	0	0	0	0	0	0			
HS Cheerleaders	85	83	168	0	0	0	0	0	0			
GS Boys Basketball	1,239	1,252	955	1,536	0	0	0	0	1,536			
HS Girls Basketball	2,147	8,589	8,575	2,160	0	0	0	0	2,160			
Project Prom	973	1,540	1,749	764	0	0	0	0	764			
FRYSC	3,213	3,433	4,038	2,608	0	0	0	0	2,608			
Eighth Grade Graduation	4,080	7,949	10,121	1,908	0	0	0	0	1,908			
Humanities	238	340	0	578	0	0	0	0	578			
Arts & Humanities	388	0	0	388	0	0	0	0	388			
JISD Flower	1,501	746	579	1,668	0	0	0	0	1,668			
GS Girls Basketball	432	595	469	558	0	0	0	0	558			
MS Girls Basketball	1,075	1,658	1,625	1,108	0	0	0	0	1,108			
The 21st Century CCLC	2,176	929	2,809	296	0	76	0	76	220			
Senior Trip 2009	290	0	128	162	0	0	0	0	162			
Junior Sr Trip 2011	726	0	697	29	0	0	0	0	29			
Volleyball	208	1,175	929	454	0	0	0	0	454			
Junior Trip 2013	376	24,375	24,585	167	0	0	0	0	167			
Senior Trip 2013	5,438	18,150	23,587	1	0	0	0	0	1			
Bumblebee Marketing	0	20,608	20,608	0	0	0	0	0	0			
Bumblebee Kindergarten	64	859	923	0	0	0	0	0	0			
Bumblebee K-1	61	2,347	2,404	4	0	0	0	0	4			
Bumblebee 1A	279	734	831	182	0	121	0	121	61			
Bumblebee 1B	96	0	0	96	0	0	0	0	96			
Bumblebee 2nd	44	80	116	7	0	0	0	0	7			
Bumblebee 2B	125	0	125	0	0	0	0	0	0			
Bumblebee 3rd	3	1,034	1,018	19	0	0	0	0	19			
Bumblebee 3B	91	295	287	99	0	0	0	0	99			
Bumblebee 4A	279	746	1,024	1	0	0	0	0	1			
Bumblebee 4B	66	0	0	66	0	0	0	0	66			
Bumblebee 5A	102	1,040	1,142	0	0	0	0	0	0			
Bumblebee 5B	105	0	96	9	0	0	0	0	9			
Bumblebee 6A	0	426	0	426	0	0	0	0	426			
Bumblebee 6B	311	0	311	0	0	0	0	0	311			
Bumblebee 7A	86	234	128	192	0	0	0	0	192			
Bumblebee 7B	178	8	0	186	0	0	0	0	186			
Track	163	624	234	553	0	0	0	0	553			
Golf Club	100	58	142	16	0	0	0	0	16			
HS Baseball	8	4,079	3,909	178	0	65	0	65	113			
Art Fund	1	0	0	1	0	0	0	0	1			
Soccer Club	1,354	4,873	6,189	38	0	0	0	0	38			
Political Science Club	229	0	140	89	0	0	0	0	89			
Chess Club	238	574	694	119	0	0	0	0	119			
FRYSC Vol. Acct	0	840	650	190	0	0	0	0	190			
College Coach Fund	0	3,226	3,111	115	0	0	0	0	115			
Class of 2016	0	83	83	0	0	0	0	0	83			
Class of 2013	0	1,589	1,589	0	0	0	0	0	0			
Class of 2014	0	6,556	4,363	2,193	0	0	0	0	2,193			
Class of 2015	0	3,528	68	3,460	0	0	0	0	3,460			
MS Softball	0	949	299	650	0	0	0	0	650			
Spanish Club	0	160	0	160	0	0	0	0	160			
TOTALS	\$ 45,754	\$ 214,260	\$ 218,593	\$ 41,421	\$ 0	\$ 263	\$ 0	\$ 263	\$ 41,158			

JACKSON INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<i>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures (\$)</i>
<u>U.S. Department of Education</u>			
Passed Through Kentucky State Department of Education:			
<i>Special Education Cluster (IDEA)-Cluster</i>			
Special Education Grants to States	84.027	3810002-12	\$84,111
Special Education Preschool Grants	84.173	3800002-12	4,424
Total Special Education Cluster (IDEA)- Cluster			\$88,535
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3793	\$172,069
Twenty First Century Community Learning Centers	84.287	3400002-11	73,699
Twenty First Century Community Learning Centers	84.287	3400002-12	4,554
Total Twenty First Century Community			78,253
Education Jobs Fund	84.410	EJOB00-10	\$787
Foreign Language Assistance	84.293	4101A	\$22,778
Improving Teacher Quality State Grants	84.367	3230002-12	21,417
Race to the Top	84.413	3960002-11	\$2,105
Title I Grants to Local Educational Agencies	84.010	3100002-12	73,837
Total U.S. Department of Education			\$459,781
 <u>United States Department of Agriculture Direct Programs</u>			
Passed Through Kentucky State Department of Education:			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	7760005-12	7,458
School Breakfast Program	10.553	7760005-13	22,579
National School Lunch Program	10.555	7750002-12	24,224
National School Lunch Program	10.555	7750002-13	83,217
National School Lunch Program – Commodities	10.555	Fund 51	11,507
National School Lunch – Summer Program	10.559	7690024-12	3,085
National School Lunch - Summer Program	10.559	7740023-12	29,816
Total U.S. Department of Agriculture			\$181,886

JACKSON INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Appalachian Regional Commission

Passed Through Kentucky State Department of
 Education

KY AED	23.011	6882	\$805
Total Appalachian Regional Commission			\$805
<i>Total Expenditures of Federal Awards</i>			\$642,472

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Jackson Independent School District and is presented on the accrual basis of accounting. The information on 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.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3- FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2013, the District received food commodities totaling \$11,507.

SUMMERS, MCCRARY & SPARKS, P.S.C.

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LAURENCE T. SUMMERS
1961-1992

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

Kentucky State Committee of School District Audits
Members of the Board of Education
Jackson Independent School District
Jackson, KY 41339

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Jackson Independent School District (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 and have issued our report thereon dated December 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 15, 2013.

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.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
December 15, 2013

SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Kentucky State Committee of School District Audits
Members of the Board of Education
Jackson Independent School District
Jackson, KY 41339

Report on Compliance for Each Major Federal Program

We have audited Jackson Independent School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 the 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; and OMB Circular A-133, *Audits of States, Local Governments, Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Jackson Independent 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 the 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 the 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 the 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.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
December 15, 2013

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Section II – Financial Statement Findings

There were none in the current year.

Section III – Federal Award Findings and Questioned Costs

There were none in the current year.

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
For the Year Ended June 30, 2013**

SECTION I - FINDINGS - FINANCIAL STATEMENT FINDINGS

2012-01. Condition: The District lacked proper internal controls over financial reporting of their year end financial statements to be issued in accordance with generally accepted accounting principles (GAAP).

Status: The condition was not repeated in the current year.

2012-02. Condition: The District did not maintain the 2% minimum reserve.

Status: The condition was not repeated in the current year.

SUMMERS, MCCRARY & SPARKS, P.S.C.

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Members of the Jackson Independent Board of Education
Jackson Independent School District
Jackson, Kentucky

In planning and performing our audit of the financial statements of Jackson Independent 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 financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several 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. This letter does not affect our report dated December 15, 2013 on the financial statements of the Jackson Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of 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,

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
December 15, 2013

**JACKSON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2013**

BOARD

Condition: During our testing of cash disbursements, we noted purchases made prior to the approval of the purchase order and more than the purchase order amount. We recommend all purchases be made in accordance with purchase orders approved prior to making the purchase.

Response: Effective January 1, 2014, every effort will be made to relay to the faculty and staff the importance of prior approval for all purchases and travel reimbursements. The central office staff has discussed proper purchasing procedures to prevent future occurrences. All purchases are approved by the Superintendent/Designee, as indicated by his signature on every purchase order form.

ACTIVITY FUNDS

Condition: During our review of transfers made during the year, we found one instance where the transfer form was not completed properly due to a missing explanation of the transfer. The Bookkeeper should review the Transfer Form (Form F-SA-10) of the "Redbook" to ensure they are familiar with all items that need to be reported on the form.

Response: Effective immediately the school bookkeeper shall review the proper procedure in "Redbook" and properly complete the Transfer Forms (Form F-SA-10).

Condition: During our review of cash disbursements, we found multiple instances where the Tax I.D. number was missing and one instance where the vendor's certification signature was missing on the "Standard Invoice" (Form F-SA-8). We recommend that the bookkeeper review the standard invoice form of the "Redbook" to ensure they are familiar with all items that need to be completed on the form.

Response: Effective immediately the school bookkeeper shall ensure the vendor's certification signature is obtained on the standard invoices.

Effective immediately the school bookkeeper shall ensure the vendor's Tax I.D. number is included on the standard invoices.

**JACKSON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2013**

STATUS OF PRIOR YEAR COMMENTS

Board

- Previously, we found purchases made prior to approval of purchase orders. Although similar findings were found, fewer instances were noted.
- Previously, we noted salary expense exceeded budgeted amounts. No similar finding occurred in the current year.
- Previously, we noted the District did not meet the Maintenance of Fiscal Effort Excess Cost Requirement and Non-Supplanting requirements (MOFE). No similar finding occurred in the current year.

Activity Funds

- Previously, we found multiple instances of the Vendor's Address not being completed on the Standard Invoice (Form F-SA-8), and one instance of the cost not being included on the Standard Invoice. We recommended that the Bookkeeper should review the Standard Invoice Form (F-SA-8) of the "Redbook", to ensure they are familiar with all items that need to be reported on the form. No similar findings occurred in current year.