

JACKSON COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENT
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

with

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jackson County School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2014, on our consideration of Jackson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jackson County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

JACKSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2014

The management of Jackson County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2014. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

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

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,403,575 in 2014, \$3,831,143 in 2013 and \$7,382,008 in 2012. This is a decrease of \$3,978,433 over this time period. The majority of this decrease is the result of the Jackson County High School bonding proceeds being disbursed in 2013 and 2014. The District's goal was to insure a minimal two percent contingency in which we were successful in achieving that goal in our overall operations of the District.
- The District's plan was to save as much money as possible in all areas of operations, including reducing personnel. The budget committee has worked hard to eliminate all positions possible without hurting the integrity of the District.
- A concerted effort was focused on saving as much as possible when purchasing in the areas of supplies, food, maintenance items, and other materials. We had targeted our Food Service as a top priority for improvements. Continuation of working with local districts to purchase supplies with a three county cooperative approach has resulted in a savings in operations in food service. We have also been effective in saving some monies in other areas of purchasing. An increased focus on student participation rates has resulted in an increase in food service revenues along with implementation of the CEO (community eligibility program) for our food service program has provided additional revenue. This additional revenue will enable the District to make needed improvements in our Food Service areas of operation.
- The major project for Jackson County continues to be the new Jackson County High School. The first phase of construction began during the 2009-2010 school year. The district received additional Category Five funding which enabled us to continue to the next phase of the new high school. The district had to commit to levy an additional five cent equivalent tax rate to qualify for the Category Five funding. In FY 12-13 the District received additional funding from the SFCC (School Facility Construction Commission). The total project cost is now estimated at \$21.5 million of which \$19.1 million is SFCC and Category Five funding and \$2.4 million consists of local funds. The athletic field phase of the project was completed this year, and for FY 2014-15 the District will receive additional SFCC funding which will enable us to complete the final phase of the high school project which consists of curbing and blacktopping.
- Our District remains committed to educational excellence by keeping teacher salaries high and the student-teacher ratio low.
- The General Fund had \$17,671,739 in revenues, excluding on-behalf payments, interfund transfers, and proceeds from sale of assets, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and the utility tax which was implemented in 2011. Excluding on-behalf payments and interfund transfers, the General Fund had \$17,529,243 in expenditures. A growing concern for the district, however, is the sequestration of federal funds along with state mandated salary increases and the impact it may have on our staffing and overall budget. The administrative budget team has taken into account in the budgeting process these legislative mandates.

- Governmental Capital Assets had a net increase of \$164,367 during the current fiscal year. Business-Type Activities Capital Assets had a net decrease of \$16,460 during the current fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations. The district was able to refinance some bonding issues in FY 2012-13 at a lower interest rate, and will have another bond refinancing option in FY 2014-15. These savings will continue to aid us in our effort to gradually rebuild our bus fleet in which those savings have aided us in our effort to gradually rebuild our bus fleet. The total debt decreased by \$1,100,570 during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 9 to 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

JACKSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year ended June 30, 2014

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

Net Position for the period ending June 30, 2014

Fiscal year 2014 government-wide net position compared to 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 10,833,150	\$ 5,072,960
Capital assets	36,488,754	43,312,401
Total assets	<u>\$ 47,321,904</u>	<u>\$ 48,385,361</u>
Deferred outflows of resources	<u>\$ 366,795</u>	<u>\$ -</u>
Current liabilities	\$ 2,481,117	\$ 2,715,764
Noncurrent liabilities	24,597,018	25,557,121
Total liabilities	<u>\$ 27,078,135</u>	<u>\$ 28,272,885</u>
Net investment in capital assets, net of debt	\$ 17,381,329	\$ 16,307,837
Restricted net position	564,081	2,088,284
Unrestricted net position	2,665,154	1,716,355
Total net position	<u>\$ 20,610,564</u>	<u>\$ 20,112,476</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$20,063,057; proprietary assets exceeded liabilities by \$547,507 and total assets exceeded liabilities by \$20,610,564 at June 30, 2014.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2014 and 2013.

JACKSON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
Year ended June 30, 2014

	<u>2014</u>	<u>2013</u>
Revenues and other financing sources		
Local revenue sources	\$ 3,126,572	\$ 3,015,106
State revenue sources	18,204,390	18,187,123
Federal revenue	3,389,596	4,247,344
Total revenue	<u>\$ 24,720,558</u>	<u>\$ 25,449,573</u>
Expenditures and other financing uses		
Instruction	\$ 13,145,687	\$ 13,340,868
Student support services	1,145,629	1,026,499
Instructional support	1,076,781	1,440,320
District administration	785,517	735,608
School administration	649,294	658,440
Business operations	563,418	507,125
Plant operation and maintenance	1,884,489	1,777,745
Student transportation	2,042,722	2,334,962
Community services	317,804	298,864
Debt service	2,721,522	2,727,815
Architectural and engineering	-	2,544
Building acquisition and construction	1,006,369	4,450,232
Total expenditures	<u>\$ 25,339,232</u>	<u>\$ 29,301,022</u>
Excess revenues (expenditures)	<u>\$ (618,674)</u>	<u>\$ (3,851,449)</u>
Other financing sources (uses)		
Bond proceeds	\$ -	\$ 4,100,000
Bond premium	-	38,091
Payments to escrow agent - refunding	-	(3,648,223)
Debt issuance cost	-	(44,868)
Transfers in	1,510,884	1,779,966
Transfers out	(1,456,343)	(1,779,966)
Proceeds from sale of assets	76,667	7,813
Total other financing sources (uses)	<u>\$ 131,208</u>	<u>\$ 452,813</u>
Net change in fund balance	<u>\$ (487,466)</u>	<u>\$ (3,398,636)</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$609,683 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2014, were \$17,671,739 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$723,196 or 4.27% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2014 was \$17,529,243.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$1,428,447 or 7.53% less than budget.

Contacting the District's Financial Management

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

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

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,089,922	\$ 313,653	\$ 3,403,575
Accounts receivable:			
Taxes	29,688	-	29,688
Other	73,296	-	73,296
Intergovernmental - Federal	439,308	10,099	449,407
SFCC current receivable of bonds payable	375,515	-	375,515
Inventory	132,776	47,489	180,265
SFCC noncurrent receivable of bonds payable	6,321,404	-	6,321,404
Capital Assets, net			
Nondepreciable	13,112,396	-	13,112,396
Depreciable	23,183,815	192,543	23,376,358
Total assets	<u>46,758,120</u>	<u>563,784</u>	<u>47,321,904</u>
Deferred outflows or resources			
Deferred outflows created by refunding bonds	366,795	-	366,795
LIABILITIES			
Accounts payable	172,770	16,277	189,047
Accrued expenses	356,080	-	356,080
Unearned revenue	110,057	-	110,057
Current portion of KSBIT assessment payable	99,251	-	99,251
Current portion of capital lease obligations	84,919	-	84,919
Current maturities of bond obligations	1,495,571	-	1,495,571
Interest payable	146,192	-	146,192
Noncurrent portion of KSBIT assessment payable	218,900	-	218,900
Noncurrent portion of capital lease obligations	466,347	-	466,347
Noncurrent maturities of bond obligations	23,748,787	-	23,748,787
Noncurrent portion of accumulated sick leave	162,984	-	162,984
Total liabilities	<u>27,061,858</u>	<u>16,277</u>	<u>27,078,135</u>
NET POSITION			
Net investment in capital assets	17,188,786	192,543	17,381,329
Restricted for:			
Capital expenditures	194,341	-	194,341
Other	14,776	354,964	369,740
Unrestricted	2,665,154	-	2,665,154
Total net position	<u>\$ 20,063,057</u>	<u>\$ 547,507</u>	<u>\$ 20,610,564</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities							
Instruction	\$ 13,646,997	\$ -	\$ 5,552,970	\$ -	\$ (8,094,027)	\$ -	\$ (8,094,027)
Student	1,168,457	-	342,042	-	(826,415)	-	(826,415)
Instructional support	1,106,363	-	685,352	-	(421,011)	-	(421,011)
District administration	801,303	-	63,611	-	(737,692)	-	(737,692)
School administration	651,619	-	182,917	-	(468,702)	-	(468,702)
Business operations	563,418	-	97,753	-	(465,665)	-	(465,665)
Plant operations and maintenance	2,068,794	30,398	185,983	-	(1,852,413)	-	(1,852,413)
Student transportation	2,084,332	-	398,477	-	(1,685,855)	-	(1,685,855)
Community services	318,422	-	307,712	-	(10,710)	-	(10,710)
KSBIT assessment	318,151	-	-	-	(318,151)	-	(318,151)
Interest on long-term debt	1,164,550	-	-	938,156	(226,394)	-	(226,394)
Total governmental activities	23,892,406	30,398	7,816,817	938,156	(15,107,035)	-	(15,107,035)
Business-type activities							
Food service	1,628,254	149,304	1,759,501	-	-	280,551	280,551
Community service operations	12,278	11,683	2,244	-	-	1,649	1,649
Total business-type activities	1,640,532	160,987	1,761,745	-	-	282,200	282,200
Total primary government	\$ 25,532,938	\$ 191,385	\$ 9,578,562	\$ 938,156	(15,107,035)	282,200	(14,824,835)
			General revenues				
			Taxes:				
			Property		1,858,221	-	1,858,221
			Motor vehicle		366,534	-	366,534
			Utility		686,045	-	686,045
			Other local		110,563	-	110,563
			Earnings on investments		6,904	114	7,018
			State grants		12,445,058	-	12,445,058
			Other local amounts		89,623	-	89,623
			Transfers		54,541	(54,541)	-
			Gain/(loss) on disposal of assets		76,542	-	76,542
			Total general revenues		15,694,031	(54,427)	15,639,604
			Change in net position		586,996	227,773	814,769
			Restated net position beginning of year		19,921,061	319,734	20,240,795
			Prior period adjustment		(445,000)	-	(445,000)
			Net position as of June 30, 2014		\$ 20,063,057	\$ 547,507	\$ 20,610,564

The accompanying notes are an integral part of these financial statements

JACKSON COUNTY SCHOOL DISTRICT
BALANCE SHEET -
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,219,963	\$ -	\$ 194,341	\$ 3,414,304
Accounts receivable:				
Taxes	29,688	-	-	29,688
Other	73,296	-	-	73,296
Intergovernmental - Federal	-	439,308	-	439,308
Supplies inventory	132,776	-	-	132,776
Total assets	\$ 3,455,723	\$ 439,308	\$ 194,341	\$ 4,089,372
LIABILITIES AND FUND BALANCES				
Liabilities				
Checks written in excess of account balance	\$ -	\$ 324,382	\$ -	\$ 324,382
Accounts payable	167,901	4,869	-	172,770
Accrued salaries and wage payable	356,080	-	-	356,080
Unearned revenue	-	110,057	-	110,057
Total liabilities	523,981	439,308	-	963,289
Fund balances				
Nonspendable	132,776	-	-	132,776
Restricted	-	-	194,341	194,341
Committed	15,000	-	-	15,000
Assigned	991,839	-	-	991,839
Unassigned	1,792,127	-	-	1,792,127
Total fund balances	2,931,742	-	194,341	3,126,083
Total liabilities and fund balances	\$ 3,455,723	\$ 439,308	\$ 194,341	\$ 4,089,372

JACKSON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
Year ended June 30, 2014

Total fund balances - governmental funds	\$ 3,126,083
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	36,296,211
Deferred outflows of resources are not reported in the governmental funds because they are considered to affect future period bur are reported in the statement of net postion.	366,795
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.	6,696,919
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(25,244,358)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(551,266)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(162,984)
KSBIT assessment payable is not considered due and payable in the current period and is not presented on the governmental fund balance sheet but it is presented in the statement of net position.	(318,151)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(146,192)</u>
Total net position - governmental activities	<u>\$ 20,063,057</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2014

	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,479,645	\$ -	\$ 378,576	\$ 1,858,221
Motor vehicle	366,534	-	-	366,534
Utility	686,045	-	-	686,045
Other	110,563	-	-	110,563
Earnings on investments	6,837	67	-	6,904
Other local	89,690	8,615	-	98,305
Intergovernmental - State	14,902,027	1,445,052	1,857,311	18,204,390
Intergovernmental - Federal	30,398	2,709,058	650,140	3,389,596
Total revenues	17,671,739	4,162,792	2,886,027	24,720,558
Expenditures				
Current:				
Instruction	10,121,806	3,023,881	-	13,145,687
Student	1,089,026	56,603	-	1,145,629
Instructional support	428,488	648,293	-	1,076,781
District administration	785,517	-	-	785,517
School administration	637,248	12,046	-	649,294
Business operations	560,892	2,526	-	563,418
Plant operations and maintenance	1,884,489	-	-	1,884,489
Student transportation	1,941,582	101,140	-	2,042,722
Community services	10,092	307,712	-	317,804
Building acquisition and construction	-	-	1,006,369	1,006,369
Debt service	70,103	-	2,651,419	2,721,522
Total expenditures	17,529,243	4,152,201	3,657,788	25,339,232
Excess (deficit) of revenues over (under) expenditures	142,496	10,591	(771,761)	(618,674)
Other financing sources (uses)				
Proceeds from Sale of Assets	76,667	-	-	76,667
Transfers in	139,302	30,558	1,341,024	1,510,884
Transfers out	(30,558)	(41,149)	(1,384,636)	(1,456,343)
Total other financing sources (uses)	185,411	(10,591)	(43,612)	131,208
Net change in fund balance	327,907	-	(815,373)	(487,466)
Fund balance as of June 30, 2013	2,603,835	-	1,009,714	3,613,549
Fund balance as of June 30, 2014	\$ 2,931,742	\$ -	\$ 194,341	\$ 3,126,083

JACKSON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year ended June 30, 2014

Net change in total fund balances - governmental funds	\$ (487,466)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation exceeds capital outlay expense for the year.	164,492
Amortization of deferred outflows or resources is not reported as expenditures in the fund financial statements because they do not use current resources, but it is presented as an expense in the statement of activities.	(36,158)
The decrease of SFCC accounts receivable provide current financial resources and are reported in this fund financial statement as revenues; however, they are presented as a decrease of assets in the statement of net position.	(372,239)
KSBIT assessment payable is not considered to be a current obligation and the expense is not reported in the fund financial statements but it is presented as a liability and expense in the statement of net position and statement of activities	(318,151)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	1,565,095
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	28,033
Retirement of fixed assets is not presented in the fund financial statements but it is a decrease of net position in the government wide statements.	(123)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources	<u>43,513</u>
Change in net position - governmental activities	<u>\$ 586,996</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 301,482	\$ 12,171	\$ 313,653
Accounts receivable	10,099	-	10,099
Inventory	47,489	-	47,489
Total current assets	359,070	12,171	371,241
Noncurrent assets			
Capital assets	858,499	-	858,499
Less accumulated depreciation	(665,956)	-	(665,956)
Total noncurrent assets	192,543	-	192,543
Total assets	551,613	12,171	563,784
LIABILITIES			
Checks written in excess of account balance	-	-	-
Accounts payable	14,593	1,684	16,277
Total liabilities	14,593	1,684	16,277
NET POSITION			
Net investment in capital assets	192,543	-	192,543
Restricted for:			
Other	344,477	10,487	354,964
Unrestricted	-	-	-
Total net position	\$ 537,020	\$ 10,487	\$ 547,507

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
Year ended June 30, 2014

	Food Service Fund	Adult Education	Total
Operating revenues			
Lunchroom sales	\$ 147,566	\$ -	\$ 147,566
Tuition and fees	-	11,326	11,326
Other	1,738	357	2,095
Total operating revenues	<u>149,304</u>	<u>11,683</u>	<u>160,987</u>
Operating expenses			
Salaries and wages	433,013	6,286	439,299
Employee benefits	278,134	2,464	280,598
Materials and supplies	900,647	3,528	904,175
Depreciation	16,460	-	16,460
Total operating expenses	<u>1,628,254</u>	<u>12,278</u>	<u>1,640,532</u>
Operating loss	<u>(1,478,950)</u>	<u>(595)</u>	<u>(1,479,545)</u>
Nonoperating revenues			
Federal grants	1,499,356	-	1,499,356
State grants	169,360	2,244	171,604
Donated commodities	90,785	-	90,785
Interest income	114	-	114
Loss on disposal of assets	-	-	-
Total nonoperating revenues/(expenses)	<u>1,759,615</u>	<u>2,244</u>	<u>1,761,859</u>
Income before contributions			
Transfers and special items	280,665	1,649	282,314
Transfers out	<u>(54,541)</u>	<u>-</u>	<u>(54,541)</u>
Change in net position	<u>226,124</u>	<u>1,649</u>	<u>227,773</u>
Net position as of June 30, 2013	<u>310,896</u>	<u>8,838</u>	<u>319,734</u>
Net position as of June 30, 2014	<u>\$ 537,020</u>	<u>\$ 10,487</u>	<u>\$ 547,507</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
Year ended June 30, 2014

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 147,566	\$ -	\$ 147,566
Other activities	1,738	12,703	14,441
Cash paid to/for:			
Employees	(711,147)	(8,750)	(719,897)
Supplies	(817,677)	(1,916)	(819,593)
Net cash used in operating activities	<u>(1,379,520)</u>	<u>2,037</u>	<u>(1,377,483)</u>
Cash flows from non-capital financing activities			
Grants received	1,702,606	2,244	1,704,850
Transfer to general fund	(54,541)	-	(54,541)
Net cash used in non-capital financing activities	<u>1,648,065</u>	<u>2,244</u>	<u>1,650,309</u>
Cash flows from investing activities			
Purchase of fixed assets	-	-	-
Interest received on investments	114	-	114
Net cash used in capital and related activities	<u>114</u>	<u>-</u>	<u>114</u>
Net increase in cash and cash equivalents	268,659	4,281	272,940
Cash and cash equivalents as of June 30, 2013	32,823	7,890	40,713
Cash and cash equivalents as of June 30, 2014	<u>\$ 301,482</u>	<u>\$ 12,171</u>	<u>\$ 313,653</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (1,478,950)	\$ (595)	\$ (1,479,545)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in Accounts receivable	-	1,020	1,020
(Increase) Decrease in Inventory	10,270	-	10,270
Increase (Decrease) in Accounts payable	(18,085)	1,612	(16,473)
Increase (Decrease) in Checks written in excess of account balance	-	-	-
Depreciation	16,460	-	16,460
Commodities received	90,785	-	90,785
Net cash used in operating activities	<u>\$ (1,379,520)</u>	<u>\$ 2,037</u>	<u>\$ (1,377,483)</u>
Schedule of non-cash transactions:			
Depreciation	\$ 16,460	\$ -	\$ 16,460
Donated commodities	90,785	-	90,785
Total non-cash transactions	<u>\$ 107,245</u>	<u>\$ -</u>	<u>\$ 107,245</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS
June 30, 2014

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
ASSETS		
Cash	\$ 188,377	\$ 188,377
Accounts receivable	<u>3,939</u>	<u>3,939</u>
Total assets	<u>192,316</u>	<u>192,316</u>
LIABILITIES		
Accounts payable	80	80
Due to student groups	<u>192,236</u>	<u>192,236</u>
Total liabilities	<u>192,316</u>	<u>192,316</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>

1. REPORTING ENTITY

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

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The following is a summary of the basis of presentation:

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

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

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

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

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

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

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

The District has the following funds:

I. Government Fund Types

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

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

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

I. Government Fund Types - continued

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

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

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

II. Proprietary Fund Types (Enterprise Funds)

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

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

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

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

III. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

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

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

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

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

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

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.587 per \$100 valuation for real property, \$.587 per \$100 valuation for business personal property and \$.568 per \$100 valuation for motor vehicles.

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

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

Prepaid Assets

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

Capital Assets

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

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

All reported capital assets, except land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Receivables

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

Inventories

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

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

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

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

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

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

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

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

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

Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2014, in the governmental funds balance sheet.

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

Net Position

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

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

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

Estimates

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

Deferred Inflows and Deferred Outflows of Resources

The Jackson County Board of Education adopted GASB 63 in the prior year and GASB 65 in the current year, which combined requires the recording of deferred inflows and deferred outflows of resources in the government wide statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

Cash and cash equivalents at June 30, 2014 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Jackson County Bank	\$ 4,286,633	\$ 3,591,952
	<u>-</u>	<u>-</u>
	<u>\$ 4,286,633</u>	<u>\$ 3,591,952</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 3,089,922
Proprietary funds	313,653
Agency funds	<u>188,377</u>
	<u>\$ 3,591,952</u>

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

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

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2014, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	June 30, 2013			June 30, 2014
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & land improvements	\$ 2,952,138	\$ -	\$ -	\$ 2,952,138
Buildings	29,570,833	-	-	29,570,833
Technology equipment	2,218,756	-	-	2,218,756
Vehicles	3,029,056	117,189	135,140	3,011,105
General equipment	400,933	-	-	400,933
Construction work in progress	11,911,891	1,006,369	-	12,918,260
Total historical cost	50,083,607	1,123,558	135,140	51,072,025
Less accumulated depreciation	13,951,764	959,065	135,015	14,775,814
Governmental capital assets, net	<u>\$ 36,131,843</u>	<u>\$ 164,493</u>	<u>\$ 125</u>	<u>\$ 36,296,211</u>
Business-type Activities				
Buildings	\$ 390,859	\$ -	\$ -	\$ 390,859
Technology equipment	15,666	-	-	15,666
Food service equipment	451,974	-	-	451,974
Total historical cost	858,499	-	-	858,499
Less accumulated depreciation	649,496	16,460	-	665,956
Business-type capital assets, net	<u>\$ 209,003</u>	<u>\$ (16,460)</u>	<u>\$ -</u>	<u>\$ 192,543</u>

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

Instruction	\$ 544,823
Student	22,828
Instruction staff	29,582
District administrative	15,786
School administrative	2,325
Business	-
Plant operation and maintenance	184,305
Student transportation	158,798
Community services	618
	<u>\$ 959,065</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

6. CAPITAL LEASE PAYABLE

The District has entered into a capital lease agreement for buses which will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2014:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2013	Debt Issued	Debt Paid	Balance June 30, 2014	Due Within One Year
KISTA:								
2005	March 2015	3.0% - 3.625%	\$ 597,062	\$ 112,381	\$ -	\$ 55,249	\$ 57,132	\$ 57,132
2012	March 2022	2.0% - 2.625%	82,368	73,409	-	9,275	64,134	7,787
2013	June 2033	1.5% - 3.625%	<u>445,000</u>	<u>-</u>	<u>445,000</u>	<u>15,000</u>	<u>430,000</u>	<u>20,000</u>
			<u>\$ 1,124,430</u>	<u>\$ 185,790</u>	<u>\$ 445,000</u>	<u>\$ 79,524</u>	<u>\$ 551,266</u>	<u>\$ 84,919</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2014:

Year	Principal	Interest	Total
2014-15	\$ 84,919	\$ 15,860	\$ 100,779
2015-16	27,946	13,333	41,279
2016-17	28,104	12,774	40,878
2017-18	28,262	12,212	40,474
2018-19	28,452	11,647	40,099
2020-2024	123,583	48,960	172,543
2025-2029	120,000	32,194	152,194
2030-2033	<u>110,000</u>	<u>10,331</u>	<u>120,331</u>
Totals	<u>\$ 551,266</u>	<u>\$ 157,311</u>	<u>\$ 708,577</u>
Less: amounts representing interest			<u>(157,311)</u>
Net Capital lease liability			<u>\$ 551,266</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

7. LONG-TERM OBLIGATIONS

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2004	\$ 250,000	3.1%
2004	1,615,000	3.0% - 4.35%
2005	3,155,000	3.15% - 4.15%
2007	2,260,000	3.40% - 3.80%
2009	8,845,000	1.0% - 5.625%
2011	11,900,000	5%
2011K	362,070	.75% - 5.0%
2012R	1,950,000	1.0% - 2.0%
2013	3,655,000	0.30% - 0.750%

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

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014 for debt service (principal and interest) are as follows:

See table on next page

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

7. LONG-TERM OBLIGATIONS-CONTINUED

Year	Jackson County School District		Kentucky School Facility Construction Commission		QZAB		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2014-15	\$ 1,120,056	\$ 211,605	\$ 375,515	\$ 251,802	\$ -	\$ 673,973	\$ 1,495,571	\$ 1,137,380
2015-16	1,140,500	145,202	365,071	241,936	-	722,379	1,505,571	1,109,517
2016-17	1,154,256	132,098	375,315	231,693	-	717,824	1,529,571	1,081,615
2017-18	1,163,653	119,152	385,918	221,090	-	712,833	1,549,571	1,053,075
2018-19	1,181,719	104,851	397,852	198,044	-	707,431	1,579,571	1,010,326
2019-20	1,195,337	89,040	411,235	195,774	-	701,514	1,606,572	986,328
2020-21	1,211,183	70,515	425,387	181,620	-	695,354	1,636,570	947,489
2021-22	1,222,460	59,006	440,626	166,383	-	688,868	1,663,086	914,257
2022-23	1,239,621	47,461	456,950	150,058	-	681,999	1,696,571	879,518
2023-24	1,072,300	36,603	474,271	129,067	-	673,342	1,546,571	839,012
2024-25	1,083,494	26,477	493,077	113,931	-	662,541	1,576,571	802,949
2025-26	934,955	17,949	496,616	93,897	-	651,066	1,431,571	762,912
2026-27	755,054	13,014	451,517	73,634	3,154,869	639,167	4,361,440	725,815
2027-28	289,542	10,120	395,458	52,934	-	31,797	685,000	94,851
2028-29	292,161	7,445	417,837	30,555	-	18,654	709,998	56,654
2029-30	290,724	4,063	334,274	9,402	-	5,906	624,998	19,371
2030-31	25,000	1,420	-	-	-	-	25,000	1,420
2031-32	20,555	441	-	-	-	-	20,555	441
	<u>\$ 15,392,570</u>	<u>\$ 1,096,462</u>	<u>\$ 6,696,919</u>	<u>\$ 2,341,820</u>	<u>\$ 3,154,869</u>	<u>\$ 8,984,648</u>	<u>\$ 25,244,358</u>	<u>\$ 12,422,930</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2014 is as follows:

School Building Revenue Bonds	Balance July 1, 2013		Additions	Deductions	Balance June 30, 2014	
2004	\$ 45,000	\$ -	\$ 25,000	\$ 20,000		
2004	170,000	-	80,000	90,000		
2005	390,000	-	125,000	265,000		
2007	1,595,000	-	205,000	1,390,000		
2009	7,925,000	-	315,000	7,610,000		
2011	10,806,859	-	546,571	10,260,288		
2011K	343,070	-	19,000	324,070		
2012R	1,825,000	-	120,000	1,705,000		
2013	3,630,000	-	50,000	3,580,000		
	<u>\$ 26,729,929</u>	<u>\$ -</u>	<u>\$ 1,485,571</u>	<u>\$ 25,244,358</u>		

8. OTHER LONG TERM DEBT – KSBIT

The District was assessed a total of \$318,151 payable due to Kentucky School Board Insurance Trust shortfall in the prior year. The District has several options of repayment but has chosen the zero interest option that will require them to pay 25% of the overall Worker's Compensation assessment by August 31, 2014 and 40% of the overall Property and Liability assessment by September 15, 2014, and the remainder of each over the next six and two years, respectively.

9. RETIREMENT PLANS

Kentucky Teachers' Retirement System

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

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

Funding policy – Contribution rates are established by KTRS. Members contribute 11.355% of their salaries to KTRS. Employer's contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees were 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008 contribute 1.25% of their salary to the plan. Member contributions are 2.25% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.00% of members' salary for the 2013-2014 fiscal year.

County Employees Retirement System

Substantially all other employees (full-time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The

9. RETIREMENT PLANS-CONTINUED

plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

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

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 18.63% of the employee's total compensation subject to contribution.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2014, 2013 and 2012 was \$352,536, \$1,488,166, and \$1,349,895, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2014, 2013, and 2012 were \$580,468, \$825,728, and \$787,659, respectively. The District met their contribution requirements.

10. LEASES

As of June 30, 2014, the District had not entered into any material operating lease agreements.

11. CONTINGENCIES

Grants - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2014 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

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

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT provided an assessment that the District must pay. The amounts for property/liability insurance and workers compensation insurance have been recorded in the financial statements as liabilities.

12. LITIGATION

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

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

13. IMPLEMENTATION OF GASB STATEMENT NO. 63 AND GASB STATEMENT NO. 65

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013 and GASB Statement No. 65 for the year ended June 30, 2014. These standards established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The District presented \$366,795 as deferred outflow of resources composed of amounts from refunding bond issues.

14. RISK MANAGEMENT

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

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

15. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2014. However, there may be funds with deficit operating balances.

16. COBRA

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

17. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 30,558
Operating	Food Service	General	Indirect Costs	54,541
Operating	Special Revenue	Debt Service	Debt service	41,149
Operating	FSPK	Debt Service	Debt service	1,299,875
Operating	Building	General	Surplus	84,761

18. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2014, there were no interfund balances outstanding that are reflected in the financial statements.

19. ON-BEHALF PAYMENTS

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

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

19. ON-BEHALF PAYMENTS-CONTINUED

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	834,803
Health and Life insurance		2,934,736
Other		-
Technology		62,525
Debt Service		660,255
		<u>660,255</u>
	<u>\$</u>	<u>4,492,319</u>

20. FUND BALANCE DESIGNATIONS

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

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 132,776	Supplies inventory

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 3,345	Construction
Capital Outlay	190,986	Construction/Debt Service
FSPK	10	SFCC Requirement

The following funds had committed fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 15,000	Sick Leave Retirement Benefit

The following funds had assigned fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 991,839	Largest portion for Section 7 (teacher staffing above the allotment), bus budget, and new reading series for Kindergarten through 6th grade

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year ended June 30, 2014

21. PRIOR PERIOD ADJUSTMENT

The District had a prior period adjustment to net position due to underreporting of capital lease obligations as of June 30, 2013.

Restated net position, June 30, 2013	\$ 19,921,061
Prior period adjustment to correct capital lease obligation	<u>(445,000)</u>
Net position, June 30, 2013	<u>\$ 19,476,061</u>

22. RESTATEMENT OF NET POSITION

Governmental Accounting Standards Board statements 63 and 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$274,635 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Additionally, beginning net position of the governmental activities increased \$402,953 to capitalize the deferred savings from refunding bonds issued prior to the 2013-14 fiscal year.

23. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report.

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, Accounting and Financial Reporting for Pensions. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of the statement must be implemented by the District no later than the fiscal year beginning July 1, 2014.

No events have occurred subsequent to the date of the financial statements that would require adjustment to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 1,348,750	\$ 1,348,750	\$ 1,479,645	\$ 130,895
Motor vehicle	320,000	320,000	366,534	46,534
Utility	550,000	550,000	686,045	136,045
Other	700	700	110,563	109,863
Earnings on investments	6,000	6,000	6,837	837
Other local	5,150	5,150	89,690	84,540
Intergovernmental - State	14,696,943	14,696,943	14,902,027	205,084
Intergovernmental - Federal	21,000	21,000	30,398	9,398
Total revenues	16,948,543	16,948,543	17,671,739	723,196
Expenditures				
Current:				
Instruction	10,359,902	10,359,902	10,121,806	238,096
Student	1,105,761	1,105,761	1,089,026	16,735
Instructional staff	474,606	474,606	428,488	46,118
District administration	1,062,178	1,062,178	785,517	276,661
School administration	641,280	641,280	637,248	4,032
Business operations	624,690	624,690	560,892	63,798
Plant operations and maintenance	2,134,517	2,134,517	1,884,489	250,028
Student transportation	2,471,233	2,471,233	1,941,582	529,651
Community service	13,420	13,420	10,092	3,328
Debt service	70,103	70,103	70,103	-
Total expenditures	18,957,690	18,957,690	17,529,243	1,428,447
Excess (deficit) of revenues over (under) expenditures	(2,009,147)	(2,009,147)	142,496	2,151,643
Other financing sources (uses)				
Contingency	(609,683)	(609,683)	-	
Proceeds form sale of assets	65,469	65,469	76,667	11,198
Transfers in	139,302	139,302	139,302	-
Transfers out	(42,000)	(42,000)	(30,558)	11,442
Total other financing sources (uses)	(446,912)	(446,912)	185,411	22,640
Net change in fund balance	(2,456,059)	(2,456,059)	327,907	2,783,966
Fund balance as of June 30, 2013	2,603,835	2,603,835	2,603,835	-
Fund balance as of June 30, 2014	<u>\$ 147,776</u>	<u>\$ 147,776</u>	<u>\$ 2,931,742</u>	<u>\$ 2,783,966</u>

JACKSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Earnings on investments	\$ 67	\$ 67	\$ 67	-
Other local	17,992	17,992	8,615	(9,377)
Intergovernmental - State	1,424,783	1,424,783	1,445,052	20,269
Intergovernmental - Federal	3,765,668	3,765,668	2,709,058	(1,056,610)
Total revenues	5,208,510	5,208,510	4,162,792	(1,045,718)
Expenditures				
Current:				
Instruction	3,942,617	3,942,617	3,023,881	918,736
Student	66,310	66,310	56,603	9,707
Instructional support	754,024	754,024	648,293	105,731
School administration	11,522	11,522	12,046	(524)
Business operations	-	-	2,526	(2,526)
Plant operations and maintenance	12,481	12,481	-	12,481
Student transportation	102,973	102,973	101,140	1,833
Community service	307,992	307,992	307,712	280
Total expenditures	5,197,919	5,197,919	4,152,201	1,045,718
Deficit of revenues under expenditures	10,591	10,591	10,591	-
Other financing sources				
Proceeds from sale of assets	-	-	-	-
Operating transfers in/out	(10,591)	(10,591)	(10,591)	-
Total other financing sources	(10,591)	(10,591)	(10,591)	-
Net change in fund balance	-	-	-	-
Fund balance as of June 30, 2013	-	-	-	-
Fund balance as of June 30, 2014	\$ -	\$ -	\$ -	\$ -

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND
Year ended June 30, 2014

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

JACKSON COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2014

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Constuction Fund	Debt Service Fund	Total Non-major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 190,986	\$ 10	\$ 3,345	\$ -	\$ 194,341
Total assets	\$ 190,986	\$ 10	\$ 3,345	\$ -	\$ 194,341
FUND BALANCES					
Fund Balances: Restricted	\$ 190,986	\$ 10	\$ 3,345	\$ -	\$ 194,341
Total fund balances	\$ 190,986	\$ 10	\$ 3,345	\$ -	\$ 194,341

JACKSON COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2014

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Construction Fund	Debt Service Fund	Total Non-major Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 378,576	\$ -	\$ -	\$ 378,576
Intergovernmental - State	190,986	1,006,070	-	660,255	1,857,311
Intergovernmental - Federal	-	-	-	650,140	650,140
Total revenues	190,986	1,384,646	-	1,310,395	2,886,027
Expenditures					
Building acquisition nad construction	-	-	1,006,369	-	1,006,369
Debt service	-	-	-	2,651,419	2,651,419
Total expenditures	-	-	1,006,369	2,651,419	3,657,788
Other financing sources (uses)					
Transfers in	-	-	-	1,341,024	1,341,024
Transfers out	-	(1,384,636)	-	-	(1,384,636)
Total other financing sources (uses)	-	(1,384,636)	-	1,341,024	(43,612)
Net change in fund balance	190,986	10	(1,006,369)	-	(815,373)
Fund balance as of June 30, 2013	-	-	1,009,714	-	1,009,714
Fund balance as of June 30, 2014	\$ 190,986	\$ 10	\$ 3,345	\$ -	\$ 194,341

JACKSON COUNTY BOARD OF EDUCATION
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2014

<u>School/ Activity Fund</u>	<u>Cash and Equivalents June 30, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Balances June 30, 2014</u>
McKee Elementary School	\$ 57,851	\$ 67,549	\$ 70,848	\$ 54,552	\$ 3,939	\$ 80	\$ 58,411
Sand Gap Elementary School	1,109	34,417	34,067	1,459	-	-	1,459
Tyner Elementary School	36,258	82,096	69,318	49,036	-	-	49,036
Jackson County Middle School	<u>16,101</u>	<u>88,167</u>	<u>83,642</u>	<u>20,626</u>	<u>-</u>	<u>-</u>	<u>20,626</u>
Totals	<u>\$ 111,319</u>	<u>\$ 272,229</u>	<u>\$ 257,875</u>	<u>\$ 125,673</u>	<u>\$ 3,939</u>	<u>\$ 80</u>	<u>\$ 129,532</u>

JACKSON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
JACKSON COUNTY HIGH SCHOOL ACTIVITY FUND
Year ended June 30, 2014

	Fund Balances		Transfers		Cash and Cash	Accounts	Accounts	Fund
	June 30, 2013	Receipts	Disbursements	in (out)	Equivalents	Receivable	Payable	Balances
	June 30, 2013				June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Academic Team	\$ 76	\$ 1,118	\$ 146	\$ -	\$ 1,048	\$ -	\$ -	\$ 1,048
Volleyball	109	8,202	4,949	-	3,362	-	-	3,362
Junior Boys	-	-	-	-	-	-	-	-
Boys Basketball GP	-	-	-	-	-	-	-	-
Boys Basketball GP Trip	-	44,190	45,337	4,653	3,506	-	-	3,506
Girls Basketball	614	6,712	9,149	1,888	65	-	-	65
Bank/Drama	110	776	329	-	557	-	-	557
Baseball	298	10,741	11,731	692	-	-	-	-
Softball	549	6,062	6,819	208	-	-	-	-
Beta Club	11	180	202	11	-	-	-	-
Regional FFA	-	8,953	10,958	2,005	-	-	-	-
Cheerleaders	-	11,714	9,891	(452)	1,371	-	-	1,371
Yearbook	1,565	7,485	6,617	-	2,433	-	-	2,433
Dance Team	274	3,258	3,786	254	-	-	-	-
Archery	76	11,479	8,112	-	3,443	-	-	3,443
School Store	21	3,205	2,938	95	383	-	-	383
Horse Show	-	-	-	-	-	-	-	-
Future Farmers of America	-	34,255	32,489	(1,766)	-	-	-	-
FCCLA	-	210	183	-	27	-	-	27
FBLA	715	956	1,481	-	190	-	-	190
General Fund	1,086	46,733	41,192	(2,740)	3,887	-	-	3,887
Cross Country	-	1,012	1,494	482	-	-	-	-
National Honor Society	-	156	245	89	-	-	-	-
Youth Service Center	-	103	21	-	82	-	-	82
JROTC	912	5,893	8,179	2,090	716	-	-	716
Library Department	570	599	982	-	187	-	-	187
Pep Club	4	-	-	-	4	-	-	4
Student Book Club	453	832	1,203	-	82	-	-	82
Fishing Club	-	2,000	475	-	1,525	-	-	1,525
Girls Golf	4,078	3,880	3,663	677	4,972	-	-	4,972
Boys Golf	337	7,793	6,799	3,300	4,631	-	-	4,631
Seniors	-	34,797	35,014	217	-	-	-	-
49th District Tourny	-	55,699	5,802	(20,990)	28,907	-	-	28,907
Teacher's Lounge	-	4,248	3,957	(20)	271	-	-	271

JACKSON COUNTY BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
JACKSON COUNTY HIGH SCHOOL ACTIVITY FUND-CONTINUED
Year ended June 30, 2014

	Fund Balances		Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents	Accounts Receivable	Accounts Payable	Fund Balances
	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
Prom	-	-	5,125	4,857	(268)	-	-	-	-
Football	54	54	29,464	40,198	10,735	55	-	-	55
Scholarships	1,000	1,000	-	-	-	1,000	-	-	1,000
Ky Middleschool Masters	-	-	4,275	3,115	(1,160)	-	-	-	-
Total accounts	\$ 12,912	\$ 12,912	\$ 362,105	\$ 312,313	\$ -	\$ 62,704	\$ -	\$ -	\$ 62,704

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JACKSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
US Department of Agriculture			
Passed Through State Department of Education:			
School Breakfast Program	10.553		
Fiscal Year 14		57611-05-Z	\$ 378,568
Fiscal Year 13		57611-05-Z	116,953
National School Lunch Program	10.555		
Fiscal Year 14		57511-02-Z	750,825
Fiscal Year 13		57511-02-Z	225,308
Summer Food Service Program for Children	10.559		
Fiscal Year 14		57411-23-Z	9,301
Fiscal Year 13		57411-23-Z	18,400
Passed Through State Department of Agriculture:			
National School Lunch Program	10.555		
Fiscal Year 14		51-4550	<u>90,785</u>
<i>Child Nutrition Cluster Total</i>			<u>1,590,140</u>
Total US Department of Agriculture			<u>1,690,140</u>
US Department of Health and Human Services			
Passed Through Kentucky River Foothills Development Council:			
Head Start	93.600		
Fiscal Year 14		04CH2164	<u>135,500</u>
Total US Department of Health and Human Services			<u>135,500</u>
US Department of Education			
Passed Through State Department of Education			
<i>Title I Cluster</i>			
Title I Grants to Local Educational Agencies	84.010		
Fiscal Year 14		35112-01-Z	808,641
Fiscal Year 13		35112-01-Z	288,107
Fiscal Year 12		35112-01-Z	<u>13,025</u>
			<u>1,109,773</u>
Title I Grants to Local Educational Agencies	84.010		
Fiscal Year 14		35111-11-Z	19,335
Fiscal Year 13		35112-11-Z	<u>6,435</u>
			<u>25,770</u>
Title I Grants to Local Educational Agencies	84.010		
Fiscal Year 12		35113-11-Z	<u>41,543</u>
<i>Title I Cluster Total</i>			<u>1,177,086</u>
School Improvement Grants	84.377		
Fiscal Year 10		35110-11-Z	<u>207,790</u>
<i>Special Education Cluster</i>			
Special Education Grants to States	84.027		
Fiscal Year 14		58110.02.Z	400,531
Fiscal Year 13		58111.02.Z	<u>96,996</u>
			<u>497,527</u>
Special Education-Preschool Grants	84.173		
Fiscal Year 14		58711.03.Z	<u>18,920</u>
<i>Special Education Cluster Total</i>			<u>516,447</u>
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 14		33-540-3484	16,205
Fiscal Year 13		33-540-3483	<u>980</u>
			<u>17,185</u>
Funds for Improvement of Education	84.215		
Fiscal Year 14		5184	<u>43,062</u>
Improving Teacher Quality State Grants	84.367		
Fiscal Year 14		71012.02.Z	204,555
Fiscal Year 13		71012.02.Z	<u>9,672</u>
			<u>214,227</u>

JACKSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
 Year ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Education Technology State Grants Fiscal Year 11	84.318	73612.02.Z	<u>2,074</u>
Race to the Top Fiscal Year 11	84.413	33-540-4521	<u>2,714</u>
Rural Education Fiscal Year 14 Fiscal Year 13	84.358	35011.02.Z 35012.02.Z	35,721 <u>3,851</u> <u>39,572</u>
Passed through Ky Workforce Development Cabinet Adult Education - Basic Grants to States Fiscal Year 14 Fiscal Year 14	84.002	33-540-3654 33-540-3734	8,381 <u>46,866</u> <u>55,247</u>
Passed through Eastern Kentucky University Gaining Early Awareness and Readiness for Undergraduate Programs Fiscal Year 14 Fiscal Year 13	84.334	33-540-3794 33-540-3793	234,870 <u>2,341</u> <u>237,211</u>
Total for US Department of Education			<u>2,612,616</u>
US Department of Defense Junior Reserve Officers' Training Corps Fiscal Year 2014	12.000	5044	<u>60,944</u>
Total US Department of Defense			<u>60,944</u>
Total Expenditure of Federal Awards			<u>\$ 4,299,199</u>

JACKSON COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

1. BASIS OF PRESENTATION

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

2. IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2014 is \$90,785.

3. CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Jackson County School District's basic financial statements, and have issued our report thereon dated November 11, 2014.

Internal Control over Financial Reporting

Management of Jackson County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Jackson County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jackson County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Jackson County School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jackson County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

We noted other matters involving the internal control over financial reporting that we have reported to the management of Jackson County School District in a separate letter dated November 11, 2014.

Purpose of this Report

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

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Jackson County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Jackson County School District's major federal programs for the year ended June 30, 2014. The Jackson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Jackson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jackson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Jackson County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Jackson County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Jackson County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jackson County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the Jackson County School District, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 11, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
---	--------------------

Headstart	93.600
-----------	--------

Title I grants to Local Educational Agencies	84.010
--	--------

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

Auditee qualified as low risk	<input checked="" type="checkbox"/>	Yes	_____	No
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(continued)

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year ended June 30, 2014

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

JACKSON COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2014

Status of Prior Year Findings

There were no prior year audit findings

MANAGEMENT LETTER COMMENTS

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

In planning and performing our audit of the basic financial statements of Jackson County School District for the year ended June 30, 2014, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 11, 2014, on the basic financial statements of Jackson County School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 11, 2014

Prior Year Comments – School Activity Funds

Sand Gap Elementary

1. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.

This deficiency appears corrected in the current fiscal year.

2. Ticket requisitions were not properly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event and documents are properly completed and signed.

This deficiency was not corrected in the current fiscal year.

3. Lack of sufficient documentation with receipts. Bookkeeper needs to keep Multiple Receipt Forms, Deposit tickets, and any deposit documentation together so it can be traced back to bank statements.

This deficiency was not corrected in the current fiscal year.

4. Multiple Receipt Forms were not used. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.

This deficiency was not corrected in the current fiscal year.

5. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders not being utilized and purchase orders not being properly filled out were noted.

This deficiency was not corrected in the current fiscal year.

6. Bookkeeper uses three pre-numbered purchase order books and does not use them in sequential order. This creates an issue where a missing purchase order would not be easily recognized. The pre-numbered documents should be used in proper order as part of internal control.

This deficiency appears corrected in the current fiscal year.

7. Inventory Control worksheets are not being used.

This deficiency appears corrected in the current fiscal year.

Tyner Elementary

8. Lack of sufficient documentation with receipts. Multiple receipt forms are not filed with deposit/receipt documents and therefore could not verify they were being properly used.

This deficiency appears corrected in the current fiscal year.

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

This deficiency appears corrected in the current fiscal year.

McKee Elementary

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

This deficiency was not corrected in the current fiscal year.

Jackson County High School

11. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.

This deficiency appears corrected in the current fiscal year.

12. Lack of sufficient documentation with receipts. Multiple receipt forms are not filed with deposit/receipt documents and therefore could not verify they were being used, could not verify timely deposits, could not verify proper classification of deposit, and could not trace to bank statement.

This deficiency was not corrected in the current fiscal year.

13. Inventory Control worksheets are not being used.

This deficiency appears corrected in the current fiscal year.

Jackson County Middle School

14. Bank statements must be examined and initialed by Principal. Not all bank statements had principal's initials.

This deficiency appears corrected in the current fiscal year.

15. Multiple Receipt Forms were not used. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.

This deficiency was not corrected in the current fiscal year.

16. Expenditures using activity fund monies should be only used for the benefit of the students. It appears that expenditures were made that did not follow Redbook Guidelines, such as principal name and signature stamp, leaf blower, medicine for nurse station, paint rollers, paper, posit-it notes, and SBDM policy kits and bylaws. All expenditure guidelines prescribed in the Redbook must be followed.

This deficiency appears corrected in the current fiscal year.

17. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders dated after invoices were noted.

This deficiency was not corrected in the current fiscal year.

18. Inventory Control worksheets are not being used.

This deficiency appears corrected in the current fiscal year.

Current Year Comments –School Activity Funds

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

Sand Gap Elementary

1. Ticket requisitions were not properly completed. The Redbook states “The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event and documents are properly completed and signed.
2. Lack of sufficient documentation with receipts. Bookkeeper needs to keep Multiple Receipt Forms, Deposit tickets, and any deposit documentation together so it can be traced back to bank statements.
3. Multiple Receipt Forms were not used. The Redbook states “Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money.” Students shall sign the multiple receipt form when turning in money to teacher/sponsor.
4. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that “to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated.” Instances of purchase orders not being utilized and purchase orders not being properly filled out were noted.

McKee Elementary

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

Jackson County High School

6. Lack of sufficient documentation with receipts. Multiple receipt forms are not filed with deposit/receipt documents and therefore could not verify they were being used, could not verify timely deposits, could not verify proper classification of deposit, and could not trace to bank statement.

Jackson County Middle School

7. Multiple Receipt Forms were not used. The Redbook states “Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money.” Students shall sign the multiple receipt form when turning in money to teacher/sponsor.
8. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that “to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated.” Instances of purchase orders dated after invoices were noted.

Management’s Response to Current Year Findings

Last year the district hired an independent consultant, Ron White, from White and Associates, P.S.C. to conduct a training session for all Principals and Secretaries on the updated revised guidelines of the Redbook prior to the new school year. In this session, we emphasized the importance of following all procedures as outlined in the Redbook in an effort to correct previous audit comments and conditions. Last year, the district hired this consultant to conduct internal audits with the High school, Middle school and Sand Gap Elementary, and this year hired him to complete the internal audits at the remaining schools of Tyner and McKee Elementary. After the completion of the internal audits, the Finance Officer along with the Superintendent will meet individually with each principal and secretary concerning their individual issues. The schools have made improvements from last year as many of the previous findings have been corrected. However, for the Statements

of Conditions that are reoccurring in several consecutive years the principals will be placed on a Corrective Action plan.