

**Jackson Independent School District  
Jackson, Kentucky**

**Audited Financial Statements  
and Other Financial Information**

**June 30, 2014**

**JACKSON INDEPENDENT SCHOOL DISTRICT  
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# SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Jackson Independent School District (the District) as of and for the year ended June 30, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of Jackson Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
November 12, 2014

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

As management of the Jackson Independent School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS/OVERALL DISTRICT HIGHLIGHTS**

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

The district ranked among the top fifteen school districts on the newly Unbridled Learning Assessment and Accountability Testing System, a tremendous accomplishment for a district with limited resources. This feat demonstrates that districts can succeed with limited resources, good management decisions, and a caring, dedicated staff working together for the best interest of our children. The district ACT Composite score was 22.1 for the 2013-14 school year. This was an increase of 1.6 from 20.5 in the 2012-13 school year.

Our school received a GEARUP continuation grant through Berea College providing students and staff access to new programs, professional development, and additional staff members. Some highlights of the program include the following: promoted an energetic and enthusiastic staff member as Academic Specialist for students in grades 3-9, purchased additional IPADS and scientific graphing calculators, designed professional development to improve student achievement, and increase college and career options for our students.

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

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

Our 2014 graduating class of 21 seniors received at least \$400,000 in college/university scholarships. Among numerous other accomplishments by these seniors, this class included several students achieving an ACT score of 30 or better, Governor’s Scholar and Robinson Scholar recipients.

Jackson Independent continues to strive to overcome many obstacles especially with funding and decreased budget appropriations. The district maintains a solid relationship with the Breathitt County School District which is valuable during negotiations of the annual non-residential agreement between the two districts. This agreement which has been in place for countless years grants Breathitt County resident students the right to attend Jackson Independent School District but does enact stipulations on the number of Breathitt County students that can be enrolled at Jackson Independent. The Jackson Independent Board of Education is committed to building a sound relationship with the State Managed Breathitt County System for the betterment of all children.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

The future is extremely bright at Jackson Independent School District. Through the district’s membership with Kentucky Valley Educational Cooperative we are slated to be part of a 4 year national Race To The Top Grant (Appalachian Renaissance Initiative). This grant will fund an Innovation Coordinator position as well as provide next generation professional learning opportunities for teachers and administrators. Additionally, this grant will provide educational tools and services to better meet the needs of our students. We also plan to extend the dual credit program as well as high school elective offerings through online courses within the “Invictus” Lab in 2014-15.

The diligent efforts of the community including the Mayor of Jackson, City Council Members, Breathitt County Judge, Fiscal Court Magistrates, parents, staff, students, private donors, and the Jackson Independent Foundation have yielded a positive year end fund balance. The ending General Fund balance for fiscal year 2014 was \$427,638 as compared to \$121,328 for fiscal year 2012.

Excluding loan proceeds, the General Fund had \$2,956,210 in revenues, which primarily consisted of the State program (SEEK), property, utility, and motor vehicle taxes. Expenditures for General Fund totaled \$2,638,977.

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

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds.

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

The basic governmental fund financial statements can be found on pages 12 and 14 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-41 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$1,301,550 as of June 30, 2014 as compared to \$895,080 in the prior year.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

**Net position for the periods ending June 30, 2014 and 2013**

	June 30, 2014	June 30, 2013	Change
Current Assets	\$483,621	\$198,974	\$284,647
Noncurrent Assets	2,454,119	2,606,439	(152,320)
<b>Total Assets</b>	<b>\$2,937,740</b>	<b>\$2,805,413</b>	<b>\$132,327</b>
Current Liabilities	\$216,161	\$280,938	(\$64,777)
Noncurrent Liabilities	1,418,586	1,629,393	(210,807)
<b>Total Liabilities</b>	<b>\$1,636,190</b>	<b>\$1,910,331</b>	<b>(\$274,141)</b>
<b>Deferred Inflows of Resources</b>	<b>\$1,443</b>	<b>\$0</b>	<b>\$1,443</b>
Investment in capital assets (net of debt)	\$950,069	\$890,639	\$59,430
Unrestricted	351,481	4,441	347,040
<b>Total Net Position</b>	<b>\$1,301,550</b>	<b>\$895,080</b>	<b>\$406,470</b>

**Comments on Budget Comparisons**

General fund budget compared to actual revenue varied from line item to line item with the ending actual revenues being \$653,088 more than budget. General fund budget compared to actual expenditures varied from line item to line item with the ending actual expenditures being \$256,790 more than budget. The variances of the General Fund budget compared to actual revenue and expenses are mainly due to on-behalf payments made by the state for retirement, health and life benefits.

The District’s total general fund revenues for the fiscal year ended June 30, 2014, net of interfund transfers, was \$2,956,210 a decrease of \$147,079 from the total revenues of \$3,103,289 for 2013.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2014 and 2013.

	<b>Summary of Revenue and Expenditures</b>					
	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>						
Local revenue sources	\$524,475	\$552,143	\$99,524	\$53,345	\$623,999	\$605,488
State revenue sources	2,942,368	3,112,749	19,049	23,028	2,961,417	3,135,777
Federal revenue	432,342	467,946	169,911	181,885	602,253	649,831
Investments	633	180	243	100	876	280
<b>Total revenue</b>	<b>3,899,818</b>	<b>4,133,018</b>	<b>288,727</b>	<b>258,358</b>	<b>4,188,545</b>	<b>4,391,376</b>
<b>Expenses:</b>						
Instruction	2,267,617	2,612,600	0	0	2,267,617	2,612,600
Student support	17,080	18,618	0	0	17,080	18,618
Instructional support	67,327	74,701	0	0	67,327	74,701
District administration	338,584	223,440	0	0	338,584	223,440
School administration	125,355	165,411	0	0	125,355	165,411
Business support	81,578	129,081	0	0	81,578	129,081
Plant operations	409,845	399,481	0	0	409,845	399,481
Student transportation	134,597	149,521	0	0	134,597	149,521
Community service	36,362	36,348	0	0	36,362	36,348
Facilities acquisition	5,850	39,233	0	0	5,850	39,233
Interest on long-term	56,633	74,400	0	0	56,633	74,400
Food Service	0	0	266,509	265,840	266,509	265,840
<b>Total expenses</b>	<b>3,540,828</b>	<b>3,922,834</b>	<b>266,509</b>	<b>265,840</b>	<b>3,807,337</b>	<b>4,188,674</b>
KSBIT assessment	54,919	(121,637)	0	0	54,919	(121,637)
Change in net position	413,909	88,547	22,218	(7,482)	436,127	81,065
Beginning net position	864,097	775,550	30,983	38,465	895,080	814,015
Effect of GASB 65	(29,657)	0	0	0	(29,657)	0
<b>Ending net position</b>	<b>\$1,248,349</b>	<b>\$864,097</b>	<b>\$53,201</b>	<b>\$30,983</b>	<b>\$1,301,550</b>	<b>\$895,080</b>

**Governmental Activities**

Instruction comprises 64% of governmental program expenses. Plant Operations expense makes up 12% of government expenses. District and School Administration total 10% of governmental expenses. The remaining expenses for support services, community service activities, transportation and interest account for the final 14% of total governmental expense.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

**Business-Type Activities**

The business-type activities include the food service operations. This program had total revenues of \$288,484 and expenses of \$266,509 for fiscal year 2014. Of the revenues, \$99,524 was charges for services, and \$188,960 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

**Debt**

At June 30, 2014, the School District had \$1,504,050 in debt outstanding; of this amount \$392,237 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$170,447 is due within one year.

**Capital Assets**

The Board added \$61,861 in new assets during the year, primarily for technology equipment.

**FUTURE BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1 through June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law the budget must have a minimum 2% contingency.

The CERS retirement employer rate decreased to 17.67% beginning July 1, 2014, as mandated by State law. The KTRS retirement employer contribution to the retiree medical insurance fund is 2.25% and federally funded employees 15.355% as mandated. Federal Programs Health Insurance/Life Insurance reimbursements to the State of Kentucky are included in the District’s budget. For the upcoming FY14-15 school year, the district remains committed to maintaining the 185 day contracts for certified teachers. The Board approved the state mandated 1% raise for all employees. Due to continued funding restraints, the district maintained the reduction of a portion of the extra service positions funding, field trip and extra-curricular activity transportation expenses.

Management and the Board will review the operating budget and seek areas to reduce costs while maintaining a quality education. We will also aggressively pursue new grant funding and local community support. The support and fundraising efforts of the Jackson Independent Foundation, Alumni, and Community Leaders positively impact the educational accomplishments of this district. The Board and management believe these actions will establish an adequate cash reserve in fiscal year 2015 and future years. The District continues to receive positive feedback from the community, faculty, staff, parents and students regarding the leadership initiatives of the current Superintendent, Mr. Kyle Lively. His goals for the continued success of our School District are uplifting as we plan for the next 100 years of the Jackson City School.

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

**JACKSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 239,515	\$ 11,118	\$ 250,633
Accounts receivable			
Taxes	21,182	-	21,182
Accounts	14,199	24,736	38,935
Intergovernmental - State	158,367	-	158,367
Inventory	-	14,504	14,504
<b>Total Current Assets</b>	<u>433,263</u>	<u>50,358</u>	<u>483,621</u>
<b>Noncurrent Assets</b>			
Bond discounts net of accumulated amortization of \$10,881	12,470	-	12,470
Non-depreciated capital assets	579,118	-	579,118
Net depreciated capital assets	1,848,582	13,949	1,862,531
<b>Total Noncurrent Assets</b>	<u>2,440,170</u>	<u>13,949</u>	<u>2,454,119</u>
<b>TOTAL ASSETS</b>	<u>\$ 2,873,433</u>	<u>\$ 64,307</u>	<u>\$ 2,937,740</u>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts payable	3,250	11,106	14,356
Accrued interest	18,049	-	18,049
Current portion of accrued sick leave	13,309	-	13,309
Current portion of bond obligations	145,182	-	145,182
Current portion of lease obligations	25,265	-	25,265
<b>Total Current Liabilities</b>	<u>205,055</u>	<u>11,106</u>	<u>216,161</u>
<b>Noncurrent Liabilities</b>			
Noncurrent portion of bond obligations	1,218,491	-	1,218,491
Noncurrent portion of lease obligations	115,112	-	115,112
Noncurrent portion of accrued sick leave	18,265	-	18,265
KSBIT payable	66,718	-	66,718
<b>Total Noncurrent Liabilities</b>	<u>1,418,586</u>	<u>-</u>	<u>1,418,586</u>
<b>TOTAL LIABILITIES</b>	<u>1,623,641</u>	<u>11,106</u>	<u>1,634,747</u>
<b>DEFERRED INFLOWS OR RESOURCES</b>			
Grants received in advance	1,443	-	1,443
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	936,120	13,949	950,069
Restricted Capital Projects	932	-	932
Restricted- Other Purpose	-	39,252	39,252
Unrestricted	311,297	-	311,297
<b>TOTAL NET POSITION</b>	<u>1,248,349</u>	<u>53,201</u>	<u>1,301,550</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 2,873,433</u>	<u>\$ 64,307</u>	<u>\$ 2,937,740</u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 2,267,617	\$ -	\$ 1,331,533	\$ -	\$ (936,084)	\$ -	\$ (936,084)
Support Services:							
Student	17,080	-	-	-	(17,080)	-	(17,080)
Instructional staff	67,327	-	12,722	-	(54,605)	-	(54,605)
District administration	338,584	-	22,888	-	(315,696)	-	(315,696)
School administration	125,355	-	15,204	-	(110,151)	-	(110,151)
Business	81,578	-	8,482	-	(73,096)	-	(73,096)
Plant operations and maintenance	409,845	-	29,685	-	(380,160)	-	(380,160)
Student transportation	134,597	-	7,518	-	(127,079)	-	(127,079)
Non-Instructional	36,362	-	-	-	(36,362)	-	(36,362)
Facilities acquisition and construction	5,850	-	-	-	(5,850)	-	(5,850)
Interest on long-term debt	56,633	-	-	46,552	(10,081)	-	(10,081)
Total Governmental Activities	3,540,828	-	1,428,032	46,552	(2,066,244)	-	(2,066,244)
Business-type Activities:							
Lunchroom sales	266,509	99,524	188,960	-	-	21,975	21,975
Total Primary Government	\$ 3,807,337	\$ 99,524	\$ 1,616,992	\$ 46,552	\$ (2,066,244)	\$ 21,975	\$ (2,044,269)
			General Revenues & Transfers:				
			Taxes:				
			Property	\$ 166,308	\$ -	\$ 166,308	
			Motor vehicle	16,827	-	16,827	
			Utilities	174,906	-	174,906	
			State and formula grants	1,900,127	-	1,900,127	
			Interest and investment earnings	633	243	876	
			Miscellaneous	166,433	-	166,433	
			Total General Revenues & Transfers	2,425,234	243	2,425,477	
			Extraordinary Item - KSBIT assessment	54,919	-	54,919	
			Change in Net Position	413,909	22,218	436,127	
			Net Position - beginning	864,097	30,983	895,080	
			Effect of Adoption of GASB 65	(29,657)	-	(29,657)	
			Net Position - beginning restated	834,440	30,983	865,423	
			Net Position - ending	\$ 1,248,349	\$ 53,201	\$ 1,301,550	

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	OTHER GOVERNMENTAL FUNDS NON-MAJOR	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 238,583	\$ -	\$ 932	\$ 239,515
Accounts receivable				
Due from other funds	156,924	-	-	156,924
Taxes	21,182	-	-	21,182
Other	14,199	-	-	14,199
Intergovernmental	-	158,367	-	158,367
<b>TOTAL ASSETS</b>	<b>\$ 430,888</b>	<b>\$ 158,367</b>	<b>\$ 932</b>	<b>\$ 590,187</b>
<b>LIABILITIES:</b>				
Due to other funds	\$ -	\$ 156,924	\$ -	\$ 156,924
Cash overdraft	-	-	-	-
Accounts payable	3,250	-	-	3,250
Deferred revenue	-	1,443	-	1,443
<b>TOTAL LIABILITIES</b>	<b>3,250</b>	<b>158,367</b>	<b>-</b>	<b>161,617</b>
<b>FUND BALANCES:</b>				
Restricted				
Capital projects	-	-	932	932
Committed-Sick leave	16,706	-	-	16,706
Unassigned	410,932	-	-	410,932
<b>TOTAL FUND BALANCES</b>	<b>427,638</b>	<b>-</b>	<b>932</b>	<b>428,570</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 430,888</b>	<b>\$ 158,367</b>	<b>\$ 932</b>	<b>\$ 590,187</b>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

Total Governmental Fund Balances	\$	428,570
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		2,427,700
Certain assets are not reported in this fund financial statement because they are not available to pay current period expenditures, but they are in the statement of net position.		
Bond discounts		12,470
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position.		
Bonds payable		(1,363,673)
Capital lease payable		(140,377)
Accrued interest		(18,049)
Accrued sick leave		(31,574)
KSBIT payable		(66,718)
Net Position of Governmental Activities	\$	<u><u>1,248,349</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE (GRANT) FUNDS</u>	<u>OTHER GOVERNMENTAL FUNDS NON-MAJOR</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES:</b>				
From local sources:				
Taxes:				
Property	\$ 145,852	\$ -	\$ 20,456	\$ 166,308
Motor vehicle	16,827	-	-	16,827
Utilities	174,906	-	-	174,906
Earnings on investments	633	-	-	633
Other local revenues	166,433	-	-	166,433
Intergovernmental - State	2,445,480	299,593	197,295	2,942,368
Intergovernmental - Indirect federal	6,079	426,263	-	432,342
<b>TOTAL REVENUES</b>	<u>2,956,210</u>	<u>725,856</u>	<u>217,751</u>	<u>3,899,817</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:	1,515,372	684,535	-	2,199,907
Support Services:				
Student	11,610	3,620	-	15,230
Instructional staff	65,267	1,614	-	66,881
District administration	331,430	-	-	331,430
School administration	122,494	-	-	122,494
Business	81,578	-	-	81,578
Plant operations and maintenance	378,455	-	-	378,455
Student transportation	97,579	10,648	-	108,227
Non-instructional	-	36,362	-	36,362
Facilities acquisition and construction	-	-	27,563	27,563
Debt service	35,192	-	190,188	225,380
<b>TOTAL EXPENDITURES</b>	<u>2,638,977</u>	<u>736,779</u>	<u>217,751</u>	<u>3,593,507</u>
Excess (Deficit) of Revenues over Expenditures	<u>317,233</u>	<u>(10,923)</u>	<u>-</u>	<u>306,310</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	10,923	143,636	154,559
Operating transfers out	(10,923)	-	(143,636)	(154,559)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(10,923)</u>	<u>10,923</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	306,310	-	-	306,310
Fund balance - beginning	121,328	-	932	122,260
Fund balance - ending	<u>\$ 427,638</u>	<u>\$ -</u>	<u>\$ 932</u>	<u>\$ 428,570</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

Net Change in Fund Balances - Total Governmental Funds	\$	306,310
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Bond discounts are expensed as incurred in the fund financial statements, but are amortized over the life of the bond in the statement of activities.</p>		
		(1,590)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Accrued Interest		2,305
Sick Leave		1,838
KSBIT		54,919
<p>Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Capital outlays		61,861
Depreciation expense		(179,767)
<p>Long-term debt proceeds are reported as other financing resources in funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Debt principal repaid		<u>168,033</u>
Change in Net position of Governmental Activities	\$	<u><u>413,909</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL GENERAL FUND (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
<b>REVENUES:</b>				
From local sources:				
Taxes:				
Property	\$ 131,000	\$ 131,000	\$ 145,852	\$ 14,852
Motor vehicle	16,000	16,000	16,827	827
Utilities	142,201	142,201	174,906	32,705
Earnings on investments	200	200	633	433
Other local revenues	109,547	109,547	166,433	56,886
Intergovernmental - State	1,878,456	1,894,924	2,445,480	550,556
Intergovernmental - Federal	9,250	9,250	6,079	(3,171)
<b>TOTAL REVENUES</b>	<u>2,286,654</u>	<u>2,303,122</u>	<u>2,956,210</u>	<u>653,088</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:	1,082,462	1,149,787	1,515,372	(365,585)
Support Services:				
Student	-	11,610	11,610	-
Instructional staff	59,759	59,977	65,267	(5,290)
District administration	393,345	463,531	331,430	132,101
School administration	133,670	127,028	122,494	4,534
Business	53,130	56,538	81,578	(25,040)
Plant operations and maintenance	417,147	374,956	378,455	(3,499)
Student transportation	80,568	101,776	97,579	4,197
Facilities acquisition and construction	-	-	-	-
Debt service	57,269	36,984	35,192	1,792
<b>TOTAL EXPENDITURES</b>	<u>2,277,350</u>	<u>2,382,187</u>	<u>2,638,977</u>	<u>(256,790)</u>
Excess (Deficit) of Revenues over Expenditures	<u>9,304</u>	<u>(79,065)</u>	<u>317,233</u>	<u>396,298</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Loan proceeds	-	-	-	-
Operating transfers out	(9,304)	(10,923)	(10,923)	-
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(9,304)</u>	<u>(10,923)</u>	<u>(10,923)</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	(89,988)	306,310	396,298
Fund balance - beginning	-	89,988	121,328	31,340
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 427,638</u>	<u>\$ 427,638</u>

Note: Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$609,108.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL SPECIAL REVENUE FUND (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 2014**

	SPECIAL REVENUE FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Intergovernmental - State	\$ 166,489	\$ 405,033	\$ 299,593	\$ (105,440)
Intergovernmental - Indirect federal	184,939	577,871	426,263	(151,608)
<b>TOTAL REVENUES</b>	<u>351,428</u>	<u>982,904</u>	<u>725,856</u>	<u>(257,048)</u>
EXPENDITURES:				
Current:				
Instruction:	305,185	938,708	684,535	254,173
Support Services:				
Student	13,950	4,293	3,620	673
Instructional staff	1,875	1,614	1,614	-
Student transportation	3,373	12,849	10,648	2,201
Non-Instructional	36,349	36,363	36,362	1
<b>TOTAL EXPENDITURES</b>	<u>360,732</u>	<u>993,827</u>	<u>736,779</u>	<u>257,048</u>
Excess (Deficit) of Revenues over Expenditures	<u>(9,304)</u>	<u>(10,923)</u>	<u>(10,923)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	9,304	10,923	10,923	-
Operating transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>9,304</u>	<u>10,923</u>	<u>10,923</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2014**

	<u>FOOD SERVICE FUND</u>
<b>ASSETS:</b>	
Current Assets	
Cash and cash equivalents	\$ 11,118
Accounts receivable	24,736
Inventory	14,504
Total Current Assets	<u>50,358</u>
Noncurrent Assets	
Machinery & equipment	99,957
Accumulated depreciation	<u>(86,008)</u>
Total Noncurrent Assets	13,949
<b>TOTAL ASSETS</b>	<b>\$ <u>64,307</u></b>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable	\$ <u>11,106</u>
Total Current Liabilities	<u>11,106</u>
<b>TOTAL LIABILITIES</b>	<b><u>11,106</u></b>
<b>NET POSITION:</b>	
Invested in Capital Assets, net of related debt	13,949
Unrestricted	<u>39,252</u>
<b>TOTAL NET POSITION</b>	<b><u>53,201</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ <u>64,307</u></b>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>FOOD SERVICE FUND</u>
OPERATING REVENUES:	
Lunchroom sales	\$ 99,524
TOTAL OPERATING REVENUES	<u>99,524</u>
OPERATING EXPENSES:	
Salaries and wages	114,658
Contract services	2,804
Materials and supplies	145,880
Depreciation	<u>3,167</u>
TOTAL OPERATING EXPENSES	<u>266,509</u>
Operating Income (Loss)	(166,985)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	158,404
Federal commodities	11,507
State grants	19,049
Interest income	243
NON-OPERATING REVENUES (EXPENSES)	<u>189,203</u>
Change in Net Position	22,218
Net Position - beginning	<u>30,983</u>
Total net position - ending	<u><u>\$ 53,201</u></u>

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>FOOD SERVICE FUND</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 99,524
Cash paid to suppliers	(138,047)
Cash paid to employees	<u>(97,454)</u>
Net Cash Provided (Used) by Operating Activities	(135,977)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Governmental grants	157,319
Amounts paid to other funds	<u>(10,467)</u>
Net Cash Provided (Used) by Financing Activities	146,852
<b>CASH FLOWS FROM NONCAPITAL INVESTING ACTIVITIES</b>	
Interest income	<u>243</u>
Net Cash Provided (Used) by Financing Activities	243
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	11,118
<b>Cash and cash equivalents - beginning</b>	<u>-</u>
<b>Cash and cash equivalents - ending</b>	<u><u>\$ 11,118</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (166,985)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation	3,167
Donated commodities	11,507
On-behalf payments	17,204
Changes in Assets and Liabilities:	
Inventories	-
Accounts payable	<u>(870)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (135,977)</u></u>
<b>Schedule of non-cash transactions:</b>	
Donated commodities received from federal government	\$ 11,507
On-behalf payments	\$ 17,204

See Accompanying Notes to the Financial Statements

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2014**

	<u>ACTIVITY FUNDS</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 57,236
Accounts Receivable	<u>1,330</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 58,566</u></u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 4,055
Due to student groups	<u>54,511</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 58,566</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 1 – REPORTING ENTITY**

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

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

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

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

**Blended Component Unit**

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**BASIS OF PRESENTATION**

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financials statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements of governmental funds.

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

Fund Financial Statements

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

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

The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

The District has the following funds:

I. Governmental Fund Types

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

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

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The following are Capital Project Funds:

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

II. Proprietary Fund Types (Enterprise Fund)

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

**JACKSON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

III. Fiduciary Fund Type (Agency)

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

**BASIS OF ACCOUNTING**

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

In the Government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventory

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

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property in the City. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property tax bills paid prior to January 31<sup>st</sup> received a 2% discount. Property taxes received after February 28<sup>th</sup> are considered delinquent and subject to penalty. Accounts which are delinquent six months after March 31<sup>st</sup> are turned over to a

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

collection agency. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.430 per \$100 valuation for real property, \$.430 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles.

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

Prepaid Assets

Payments made that will benefit periods beyond June 30 each year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; but the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

Bond Issue Costs

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the accumulated sick leave.

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

The entire accrued sick leave liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

Unearned Revenue

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

Accrued Liabilities and Long-Term Obligations

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

Fund Balances

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

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

Net Position

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

Deferred Outflows/Inflows of Resources

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by various schools. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

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

Contributions of Capital

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012 will improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The District implemented the new requirements for the fiscal year 2014 financial statements. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the effect of adoption of GASB 65 is the reduction of beginning net position by \$29,657.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions: an Amendment of GASB Statement No. 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

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

Custodial credit risk for deposits is the risk that in the event of bank failure the District's deposits may not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by the pledging banks' trust departments in the District's name. At year end, the carrying amount of the District's cash and cash equivalents was \$307,869. The bank balance for the same time was a balance of \$556,925.

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

Governmental Funds	\$ 239,515
Proprietary Funds	11,118
Fiduciary Funds	<u>57,236</u>
Total	<u>\$ 307,869</u>

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

**NOTE 4 - CAPITAL ASSETS**

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

**Governmental Activities:**

Instruction	\$ 130,911
Support Services:	
Student	1,850
Instructional staff	446
District administration	7,653
School administration	2,861
Plant operations & maintenance	9,677
Student transportation	<u>26,369</u>
Total depreciation expense, governmental activities	<u>\$ 179,767</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 - CAPITAL ASSETS (cont'd)**

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$579,118	\$0	\$0	\$579,118
Total capital assets not being depreciated	579,118	0	0	579,118
Other capital assets				
Land Improvements	180,213	0	0	180,213
Buildings & Improvements	3,359,279	0	0	3,359,279
Technological Equipment	588,479	61,861	0	650,340
Vehicles	315,113	0	0	315,113
General Equipment	200,784	0	0	200,784
Total other assets	4,643,868	61,861	0	4,705,729
Less accumulated depreciation for:				
Land Improvements	(67,236)	(7,802)	0	(75,038)
Buildings & Improvements	(1,812,573)	(94,058)	0	(1,906,631)
Technological Equipment	(486,013)	(47,440)	0	(533,453)
Vehicles	(147,955)	(26,690)	0	(174,645)
General Equipment	(163,603)	(3,777)	0	(167,380)
Total accumulated depreciation	(2,677,380)	(179,767)	0	(2,857,147)
Other capital assets, net	1,966,488	(117,906)	0	1,848,582
Governmental Activities, net	\$2,545,605	(\$117,906)	0	\$2,427,700
	Beginning Balance	Additions	Disposals	Ending Balance
Business Activities:				
Technological Equipment	\$11,280	\$0	\$0	\$11,280
General Equipment	88,677	0	0	88,677
Total	99,957	0	0	99,957
Less accumulated depreciation for:				
Technological Equipment	(11,280)	0	0	(11,280)
General Equipment	(71,561)	(3,167)	0	(74,728)
Total accumulated depreciation	(82,841)	(3,167)	0	(86,008)
Business Activities, net	\$17,116	(\$3,167)	\$0	\$13,949

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS**

**Bonds**

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

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

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

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Balance June 30, 2014</u>
2001 – QZAB	\$95,747	Not Applicable	6/5/2015	\$7,773
2004	925,000	3.00-3.63%	7/1/2015	195,000
2007	785,000	3.00-3.63%	8/1/2025	675,000
2010	375,000	3.850%	1/1/2030	315,000
2012	210,350	2.00-3.00%	6/1/2022	170,900
	<u>\$2,391,097</u>			<u>\$1,363,673</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

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

YEAR	Jackson Independent School District		Kentucky School Construction Commission		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2015	\$113,989	\$33,094	\$31,193	\$14,766	\$200,811
2016	120,791	29,054	31,800	13,568	204,980
2017	76,295	25,841	23,705	12,508	146,118
2018	79,858	23,598	24,042	11,594	146,860
2019	85,605	21,053	24,395	10,662	149,483
2020-24	349,898	63,604	117,102	39,115	608,561
2025-29	145,000	5,826	115,000	18,673	284,499
2030	0	0	25,000	963	25,963
	<u>\$971,436</u>	<u>\$202,070</u>	<u>\$392,237</u>	<u>\$121,849</u>	<u>\$1,767,275</u>

**Advance Refunding**

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased debt is not included in these financial statements. Outstanding at June 30, 2014 are the following amounts of debt, which are considered defeased.

- \$ 178,774 - School Building Revenue Bonds Series 1995
- \$ 640,000 - School Building Revenue Bonds Series 2000
- \$ 40,000 - KISTA Series 2002
- \$ 135,000 - KADD Series 2002

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

**Capital Leases**

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These leases qualify as capital leases for accounting purposes and therefore, have been reported at the present value of their future minimum lease payments as of the inception date. Following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the minimum lease payments as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	\$ 29,641
2016	22,815
2017	22,837
2018	22,798
2019	22,775
2020-2021	<u>37,855</u>
Total minimum lease payments	158,721
Less: Amount of interest	<u>(18,344)</u>
Present value of net minimum lease payments	<u>\$ 140,377</u>

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

<u>Class of Property</u>	<u>Amount</u>
Buses	\$ 166,304
Less: Accumulated Depreciation	<u>(93,199)</u>
	<u>\$ 73,105</u>

**KSBIT Payable**

In the prior year, the Kentucky School Board Insurance Trust (KSBIT) notified the District that its self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment was required, under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members, to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of insurance using the novation option of funding. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will take over the future responsibility for all present and future claims. The District's liability under the novation method was estimated to be \$121,637. The District elected to participate in KISTA's issuance of Assessment Funding Certificates of Participation; Taxable Series of 2014. Per this agreement, the District will make installment payments over the next 10 years. The plan was approved in June 2014 and the first payment is due by August 15, 2015. The District has adjusted the estimated amount recorded in the prior year for the actual assessment of \$66,718.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

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

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds	\$1,507,055	\$0	\$143,382	\$1,363,673	\$145,182
Capital Leases	165,028	0	24,651	140,377	25,265
KSBIT	121,637	0	54,919	66,718	0
Sick Leave	33,412	2,812	4,650	31,574	13,309
<b>Total</b>	<b>\$1,827,132</b>	<b>\$2,812</b>	<b>\$227,602</b>	<b>\$1,602,342</b>	<b>\$183,756</b>

**NOTE 6 – COMMITMENTS UNDER NON-CAPITALIZED LEASES**

Commitments under operating lease agreements for office equipment provide for the minimum future rental payments as of June 30, 2014 as follows:

Year Ending June 30,	Amount
2015	\$18,218
2016	11,702
	<u>\$29,920</u>

Rent expense for the year ended June 30, 2014 was \$18,515.

**NOTE 7 – RETIREMENT PLANS**

Kentucky Teacher's Retirement System

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

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

*Funding policy* - Contribution rates for KTRS are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in the state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program that pays for salaries also pays the matching contributions.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 7 – RETIREMENT PLANS (cont'd)**

The District's total payroll for the year was \$2,111,875. The payroll for employees covered under KTRS was \$1,448,400. For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$163,915, \$190,494 and \$222,367, respectively for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2014, 2013 and 2012 were \$211,957, \$218,830 and \$183,955, respectively, which represented those employees covered by federal programs.

County Employees' Retirement System

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

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

Plan members are required to contribute either 5% or 6% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. The current rate is 18.89% of the employee's total compensation. The contribution requirement for CERS for the years ended June 30, 2014, 2013 and 2012 were \$146,338 (which consisted of \$115,247 from the District and \$31,091 from the employees), \$156,733 and \$149,066.

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

Other Retirement Plans

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. Employee contributions made to these plans during the year totaled \$14,776. The District does not contribute to these plans.

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 7 – RETIREMENT PLANS (cont'd)**

and liabilities on its financial statements. Employee contributions made to this plan during the year totaled \$29,460. The District does not contribute to this plan.

**Medical Insurance Plan**

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

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

*Funding policy* – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013-2014 fiscal year.

**NOTE 8 – ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. At June 30, 2014, this amount totaled \$31,574. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

**NOTE 9 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain retrospectively rated policies, which include worker's compensation insurance.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 10 - CONTINGENCIES**

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

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

**NOTE 11 - RISK MANAGEMENT**

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 12 - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE 13 – INTERFUND TRANSACTIONS**

At June 30, 2014, the interfund status of payables and receivables (all current) of the various funds of the district are in the following table. All balances are expected to be settled within the next fiscal year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$156,924

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology	\$10,923
Capital Outlay	Debt Service	Debt Service	\$15,303
Building	Debt Service	Debt Service	\$128,333

**NOTE 15 - ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky contributes funds on-behalf of the District for medical insurance and related expenses, pension contributions and vocational education. The School Facilities Construction Commission contributes funds for the retirement of bonds and payment of interest on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts as reported on the statement of activities and in the actual column on the budgetary comparison schedule. However, these amounts were not budgeted by the District. As a result, the actual expenditures for the General fund exceeded budgeted amounts, as presented on page 16. Contributions made on-behalf of the District for the year ended June 30, 2014 were:

Insurance and related expenses	\$382,074
Pension contributions	163,915
Technology	16,567
Bond retirement and interest	46,552
Total on-behalf payments	<u>\$609,108</u>

**NOTE 16 – LITIGATION**

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 17 – RELATED PARTY TRANSACTIONS**

The District maintains bank accounts (see Note 3) with The First National Bank of Jackson. A Board member is an employee of the bank. The Board member abstains from voting on any related party transactions.

**NOTE 18 – SUBSEQUENT EVENT**

On September 1, 2014, the District entered into a loan agreement with Kentucky Interlocal School Transportation Association for the amount of \$66,718. These funds were used to pay the KSBIT liability. This loan is to be repaid over 10 years, with the first payment being due August 15, 2015.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2014**

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

**JACKSON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2014**

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<b>REVENUES:</b>					
From local sources:					
Taxes:					
Property	\$ -	\$ 20,456	\$ -	\$ -	\$ 20,456
Intergovernmental - State	37,016	113,727	-	46,552	197,295
<b>TOTAL REVENUES</b>	<u>37,016</u>	<u>134,183</u>	<u>-</u>	<u>46,552</u>	<u>217,751</u>
<b>EXPENDITURES:</b>					
Facilities acquisition and construction	21,713	5,850	-	-	27,563
Debt service	-	-	-	190,188	190,188
<b>TOTAL EXPENDITURES</b>	<u>21,713</u>	<u>5,850</u>	<u>-</u>	<u>190,188</u>	<u>217,751</u>
Excess (Deficit) of Revenues over Expenditures	<u>15,303</u>	<u>128,333</u>	<u>-</u>	<u>(143,636)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in	-	-	-	143,636	143,636
Operating transfers out	(15,303)	(128,333)	-	-	(143,636)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	<u>(15,303)</u>	<u>(128,333)</u>	<u>-</u>	<u>143,636</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	-	-	-
Fund balance - beginning	-	932	-	-	932
Fund balance - ending	<u>\$ -</u>	<u>\$ 932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 932</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014**

ACCOUNTS:	Cash			Cash	Accounts	Accounts	Fund
	Balances	Receipts	Disbursements				
	July 1, 2013			June 30, 2014	June 30, 2014	June 30, 2014	June 30, 2014
MS Baseball	\$ 282	\$ 586	\$ 619	\$ 249	\$ -	\$ -	\$ 249
SN Club	5	86	43	48	-	-	48
Fifth Grade	37	-	-	37	-	-	37
General	2,275	7,922	9,764	433	-	-	433
Principal	1	-	1	-	-	-	-
MS Science Fund	749	310	90	969	-	-	969
HS Science Fund	-	120	120	-	-	-	-
Athletic	2,818	21,131	19,671	4,278	-	-	4,278
Teachers Fund	795	2,809	3,167	437	-	-	437
Math	86	-	-	86	-	-	86
High School Y Club	2,651	1,630	3,155	1,126	-	-	1,126
Children Inc	1,079	2,029	2,358	750	-	-	750
Elementary Academics	880	2,986	2,075	1,791	1,330	3,052	69
MS Boys Basketball	587	2,223	1,628	1,182	-	-	1,182
HS Boys Basketball	7	-	-	7	-	-	7
Academics	307	100	-	407	-	-	407
STLP	12	-	-	12	-	-	12
HS Softball	-	2,561	1,187	1,374	-	375	999
TV Media	602	-	-	602	-	-	602
Drama Class	320	-	-	320	-	-	320
Annual	3,552	11,290	3,142	11,700	-	-	11,700
Band	271	1,111	1,354	28	-	-	28
Library	77	7,096	6,339	834	-	-	834
Senior Class	111	4,120	856	3,375	-	-	3,375
Seventh Grade	90	-	-	90	-	-	90
G.S. Cheerleaders	-	1,088	598	490	-	-	490
HS Cheerleaders	-	5,669	4,506	1,163	-	-	1,163
GS Boys Basketball	1,536	1,308	1,737	1,107	-	-	1,107
HS Girls Basketball	2,160	6,916	5,931	3,145	-	-	3,145
Project Prom	764	761	1,100	425	-	-	425
FRYSC	2,608	5,007	6,635	980	-	-	980
Eighth Grade Graduation	1,908	9,082	9,045	1,945	-	-	1,945
Humanities	578	-	-	578	-	-	578
Arts & Humanities	388	-	-	388	-	-	388
JISD Flower	1,668	638	408	1,898	-	185	1,713
GS Girls Basketball	558	809	996	371	-	-	371
MS Girls Basketball	1,108	4,943	5,195	856	-	-	856
The 21st Century CCLC	296	3,337	1,724	1,909	-	148	1,761
Senior Trip 2009	162	-	-	162	-	-	162
Junior Sr Trip 2011	29	-	-	29	-	-	29
Volleyball	454	4,835	4,234	1,055	-	220	835
Junior Trip 2013	167	-	-	167	-	-	167
Senior Trip 2013	1	-	1	-	-	-	-
Bumblebee Marketing	-	19,575	19,575	-	-	-	-
Bumblebee Kindergarten	-	1,240	1,232	8	-	-	8
Bumblebee K-1	4	-	-	4	-	-	4
Bumblebee 1st	182	1,130	1,250	62	-	-	62
Bumblebee 1B	96	-	-	96	-	-	96
Bumblebee 2nd	7	1,055	819	243	-	-	243
Bumblebee 2B	-	-	-	-	-	-	-
Bumblebee 3rd	19	1,576	1,451	144	-	-	144
Bumblebee 3B	99	-	-	99	-	-	99
Bumblebee 4A	1	1,681	1,644	38	-	-	38
Bumblebee 4B	66	246	238	74	-	-	74
Bumblebee 5A	-	-	-	-	-	-	-
Bumblebee 5B	9	182	177	14	-	-	14
Bumblebee 6A	426	472	579	319	-	-	319
Bumblebee 6B	311	-	220	91	-	-	91
Bumblebee 7A	192	163	232	123	-	-	123
Bumblebee 7B	186	123	41	268	-	-	268
Track	553	166	146	573	-	-	573
Golf Club	16	198	196	18	-	-	18
HS Baseball	178	3,114	2,370	922	-	-	922
Art Fund	1	-	-	1	-	-	1
Soccer Club	38	1,161	1,199	-	-	-	-
Political Science Club	89	264	250	103	-	-	103
Chess Club	119	708	556	271	-	-	271
FRYSC Vol. Acct	190	1,360	1,480	70	-	-	70
College Coach Fund	115	-	-	115	-	-	115
Class of 2016	83	5,436	3,820	1,699	-	-	1,699
Class of 2017	-	2,041	1,274	767	-	-	767
Class of 2014	2,193	1,329	3,522	-	-	-	-
Class of 2015	3,460	5,898	5,543	3,815	-	-	3,815
MS Softball	650	1,532	1,846	336	-	75	261
Spanish Club	160	-	-	160	-	-	160
<b>TOTALS</b>	<b>\$ 41,422</b>	<b>\$ 163,153</b>	<b>\$ 147,339</b>	<b>\$ 57,236</b>	<b>\$ 1,330</b>	<b>\$ 4,055</b>	<b>\$ 54,511</b>

JACKSON INDEPENDENT  
SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<b>Federal CFDS Number</b>	<b>Pass Through Grant Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Education</u></b>			
Passed Through Kentucky State Department of Education:			
Special Education Cluster (IDEA)-Cluster			
Special Education Grants to States	84.027	3810002-13	68,544
Special Education Preschool Grants	84.173	3800002-13	4,370
Total Special Education Cluster (IDEA)- Cluster			<u>72,914</u>
Twenty First Century Community Learning Center	84.287	340002-12	78,819
Improving Teacher Quality State Grant	84.367	3230002-13	21,109
Foreign Language Assistance	84.293	4101A	20,602
Gaining Early Awareness and Readiness for Undergraduate Program	84.334	3794	158,519
Race to the Top	84.413	3960002-11	692
Title I Grants to Local Educational Agencies	84.010	3100002-13	73,089
Total Title I			<u>73,089</u>
Total U.S. Department of Education			<u>425,744</u>
<b><u>United States Department of Agriculture</u></b>			
Passed Through Kentucky State Department of Education:			
<b><u>Child Nutrition Cluster</u></b>			
School Breakfast Program	10.553	7760005-13	7,291
School Breakfast Program	10.553	7760005-14	23,218
National School Lunch Program	10.555	7750002-13	22,429
National School Lunch Program	10.555	7750002-14	74,492
Summer Food Service Program for Children	10.559	7690024-13	2,907
Summer Food Service Program for Children	10.559	7740023-13	28,067
Total Cash Assistance			<u>158,404</u>
Non-Cash Assistance			
National School Lunch Program	10.555	4002483	11,507
Total U.S. Department of Agriculture			<u>169,911</u>
<b><u>Appalachian Regional Commission</u></b>			
Passed Through Kentucky State Department of Education:			
KY AED	23.011	6883	521
Total Appaliachian Regional Commission			<u>521</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$596,176</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2014**

**NOTE 1 - BASIS OF PRESENTATION**

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

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3- FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2014, the District received food commodities totaling \$11,507.

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

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES  
PRACTICE SECTION OF THE AMERICAN INSTITUTE  
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LAURENCE T. SUMMERS  
1961-1992

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, as defined in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Jackson Independent School District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2014.

### Internal Control Over Financial Reporting

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 14-01. This finding is a noncompliance of specific state statutes or regulations identified in *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

We noted certain matters that we reported to management of the District in a separate letter dated November 12, 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.

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
November 12, 2014

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

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

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

### **Report on Compliance for Each Major Federal Program**

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

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

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

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

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

***Summers, McCrary & Sparks, PSC***

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
November 12, 2014



**JACKSON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**Section II – Financial Statement Findings**

State Audit Requirements

- 14-01 Condition: The Board did not submit its working budgets to KDE on time.
- Criteria: Per KRS 160.470(6)(b), the Board is required to submit a working budget to KDE by September 30, of each calendar year.
- Effect: Noncompliance with KRS.
- Cause: District personnel cited health issues and computer problems.
- Recommendation: District personnel should review the statute and develop a plan to ensure the budget is submitted timely.
- Response: District personnel are knowledgeable of the KRS 160.470(6)(b). However, the submission of the working budget to the Kentucky Department of Education was unavoidably delayed due to the finance officer's scheduled surgery, computer crashing and KDE SEEK website portal issues. District staff worked with KDE District Support Staff member to resolve errors that prevented the timely upload. Also, the District's Central Office was in a "Transition Phase" with the appointment of an Interim Superintendent and the new Superintendent Search process. Every human effort possible was made with our attempt to submit the working budget on time but fail short of that goal. We understand the importance of the KRS criteria and this requirement will be given priority effective immediately.

**Section III – Federal Award Findings and Questioned Costs**

There were none in the current year.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2014**

There were no findings in the prior year

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

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY  
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LAURENCE T. SUMMERS  
1961-1992

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

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

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 12, 2014 on the financial statements of the Jackson Independent School District.

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

Respectfully,

*Summers, McCrary & Sparks, PSC*

Summers, McCrary & Sparks, PSC  
Lexington, Kentucky  
November 12, 2014

**JACKSON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
JUNE 30, 2014**

**ACTIVITY FUNDS**

Condition: During our review of transfers made during the year, we found multiple instances where the transfer form was not completed properly due to missing signatures of the Principal and Activity Fund Sponsor. We recommend the Bookkeeper review the Transfer Form (Form F-SA-10) of the "Redbook" to ensure they are familiar with all items that need to be reported on the form.

Response: Effective immediately the school bookkeeper shall review the Transfer Section and the Transfer Form of the Redbook and make transfers the proper way.

Condition: During our review of the Annual Financial Report, we noted several inactive account balances. Per the "Redbook", an activity account will be considered inactive if there has been no activity during the preceding 12 months. We recommend the Bookkeeper review the "Inactive Account Balances" section of the "Redbook" to ensure they follow the proper procedures for closing inactive accounts.

Response: Effective immediately the school bookkeeper shall review the accounts and follow the procedures of the Redbook to close these inactive accounts.

Condition: During our review of cash disbursements, we found two instances where the purchase was not made in accordance with the "Redbook". In one instance the purchase exceeded the approved amount on the purchase order and in another instance the purchase order was completed after the purchase was made. We recommend the Bookkeeper review the "Purchasing" section of the "Redbook", item no. 5, which states that the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated.

Response: Effective immediately the school bookkeeper and the principal shall review the Purchasing section of the Redbook item number 5 and purchase orders will be prepared and approved by the sponsor and the principal before payment is obligated.

**JACKSON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
JUNE 30, 2014**

**STATUS OF PRIOR YEAR COMMENTS**

**Board**

- Previously, we found purchases made prior to approval of purchase orders, and purchases that exceeded the approved amount. No similar findings occurred in the current year.

**Activity Funds**

Condition: Previously, during our review of transfers made during the year, we found one instance where the transfer form was not completed properly due to a missing explanation of the transfer. We recommended the Bookkeeper review the Transfer Form (Form F-SA-10) of the “Redbook” to ensure they are familiar with all items that need to be reported on the form. Similar finding occurred in the current year.

Condition: Previously, during our review of cash disbursements, we found multiple instances where the Tax I.D. number was missing and one instance where the vendor’s certification signature was missing on the “Standard Invoice” (Form F-SA-8). We recommended that the bookkeeper review the standard invoice form of the “Redbook” to ensure they are familiar with all items that need to be completed on the form. No similar findings occurred in the current year.