

JOHNSON COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

For the year ended June 30, 2014



WELLS & COMPANY, P.S.C.

Certified Public Accountants
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JOHNSON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Johnson County School District
Paintsville, 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 Johnson County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. 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 Johnson County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3–6 and 39–40 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 Johnson County School District's basic financial statements. The budget comparison, the combining nonmajor fund financial statements, and school activity funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, school activity funds, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, school activity funds, 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 October 27, 2014, on our consideration of the Johnson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Johnson County School District's internal control over financial reporting and compliance.

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

**JOHNSON COUNTY SCHOOL DISTRICT – PAINTSVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2014**

As management of the Johnson County School District (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

- The ending cash balance for the District was \$10,332,798 in 2013 and \$8,856,715 in 2014. This is a decrease of \$1,476,083. Much of this difference can be explained by the decrease in Debt Service Fund cash due to a payment on a bond.
- From 2013 to 2014, total General Fund revenue decreased by 1.9%. Revenue from the state decreased 2.2%. Revenues from federal sources decreased 1.2%. Revenues from other local revenues increased by 500.2%.
- Among major funds, the General Fund had \$27.6 million in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There were \$27.8 million in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies.
- During the fiscal year, the District issued \$2,790,000 in School Revenue Bonds, (Series 2013) for the improvements of the high school.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$2,733,722 during the current fiscal year.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. To be eligible to share in that money, the District updated its facilities plan in April 2008. With the age and size of our facility, there is a focus on investing in plant management. The District was granted an extension on its current facility plan for four more years during 2012.

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.

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 result in cash flows in future fiscal periods.

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

The government-wide financial statements can be found on pages 7 through 8 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 Proprietary Fund includes the food service and vending operation. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 9 through 17 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 18 through 38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Net Position for the period ending June 30, 2014 and 2013

This is the twelfth year that the District is following GASB 34 and comparing assets, liabilities and net position. 2014 Government Wide Net Position compared to 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current Assets	\$10,032,394	\$11,452,073
Noncurrent Assets	<u>27,026,278</u>	<u>25,897,855</u>
Total assets	<u>37,058,672</u>	<u>37,349,928</u>
 Deferred Outflows of Resources	 <u>223,866</u>	 <u>204,576</u>
 Current Liabilities	 2,147,780	 3,388,928
Noncurrent Liabilities	<u>17,810,988</u>	<u>16,496,596</u>
Total liabilities	<u>19,958,768</u>	<u>19,885,524</u>
 Net Position		
Net investment in capital assets	8,388,904	7,291,118
Restricted	2,563,085	4,152,446
Unrestricted Fund Balance	<u>6,371,781</u>	<u>6,225,416</u>
Total net position	<u>\$17,323,770</u>	<u>\$17,668,980</u>

There has been no significant change in the financial position of the District since the last audit.

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

	<u>2014</u>	<u>2013</u>
Revenues		
Local revenue sources	\$ 5,522,227	\$ 5,687,807
State revenue sources	25,738,163	26,293,272
Federal revenue	<u>3,188,087</u>	<u>3,243,698</u>
Total revenues	<u>34,448,477</u>	<u>35,224,777</u>
 Expenses		
Instruction	22,134,773	22,095,329
Student support services	985,441	958,877
Instructional support	198,639	175,055
District administration	779,822	797,007
School administration	1,823,473	1,749,143
Business support	533,716	553,297
Plant operations	3,630,407	3,939,890
Student transportation	1,986,055	1,996,966
Central office support	-	-
Facilities acquisition and construction	2,907,451	98,423
Community support	622,933	649,518
Other	<u>3,441,468</u>	<u>2,091,757</u>
Total expenses	<u>39,044,178</u>	<u>35,105,262</u>
 Excess (deficit) of revenues over expenses	 (4,595,701)	 119,515
 Other Financing Sources (Uses)		
Bond sale proceeds	2,719,059	1,559,467
Proceeds from sale of fixed assets	<u>278,034</u>	<u>9,132</u>
Total other financing sources (uses)	<u>2,997,093</u>	<u>1,568,599</u>
 Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	 <u>\$ (1,598,608)</u>	 <u>\$ 1,688,114</u>

CAPITAL ASSETS

At the end of fiscal 2014, the District had \$27.024 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of \$1.147 million over last year. This increase is primarily due to the construction in progress. Additionally, no buses were purchased in fiscal 2014.

Capital Assets at Year-End
(Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 1.85	\$ 1.91	\$ -	\$ -	\$ 1.85	\$ 1.91
Buildings & Improvements	21.23	22.45	-	-	21.23	22.45
Technology Equipment	.26	.31	.004	.007	.264	.317
Vehicles	.82	1.06	-	-	.82	1.06
General Equipment	.08	.09	.04	.05	.12	.14
Construction in Progress	<u>2.74</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2.74</u>	<u>-</u>
Totals	<u>\$ 26.98</u>	<u>\$25.82</u>	<u>\$.044</u>	<u>\$.057</u>	<u>\$27.024</u>	<u>\$25.877</u>

- On-behalf of amounts are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees and debt service. Further discussion of these can be found in Note B. Expenses that increased from 2013 to 2014 include instruction, student, instruction staff, school administration, facilities acquisition and construction, and other.

The changes in the balances and transactions of individual funds have not been material. Changes in final budget when compared to original are not material.

- The majority of revenue in 2014 was derived from state funding (75%) as compared with fiscal year 2013 (75%) with federal revenue making up 9% of total revenue in 2014 compared to 9% in 2013.

Comments on Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2014, net of interfund transfers, were \$27.7 million.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$6.9 million more than budget.
- The total cost of all General Fund programs and services was \$27.8 million net of debt service.
- General Fund budget expenditures to actual varied significantly in instruction (\$3.96 million). This resulted from the Board recording the on-behalf payments made for the District.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - 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 District adopted a budget with \$2.7 million in contingency (10%). The General Fund beginning cash balance for beginning the fiscal year was \$6.8 million.

Questions regarding this report should be directed to the Superintendent or Misty Goble, Director of Finances or by mail at 253 North Mayo Trail, Paintsville, Ky 41240.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business Type Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 8,206,556	\$ 583,748	\$ 8,790,304
Inventory	-	84,936	84,936
Accounts receivable			
Taxes - current	75,147	-	75,147
Taxes - delinquent	8,974	-	8,974
Accounts receivable	186,179	-	186,179
Intergovernmental - state	123,683	-	123,683
Intergovernmental - indirect federal	657,212	9,585	666,797
Investments	96,374	-	96,374
Total current assets	9,354,125	678,269	10,032,394
Noncurrent Assets:			
Capital assets, net	26,979,020	47,258	27,026,278
Total noncurrent assets	26,979,020	47,258	27,026,278
Total assets	36,333,145	725,527	37,058,672
Deferred Outflows of Resources			
Debt discount	146,492	-	146,492
Refunding of debt	77,374	-	77,374
Total deferred outflows of resources	223,866	-	223,866
Liabilities			
Current Liabilities:			
Accounts payable	229,350	563	229,913
Payroll liabilities	54,208	-	54,208
Unearned revenue	265,450	-	265,450
Current portion of bond obligations	1,348,722	-	1,348,722
Current portion of KSBIT assessment	115,356	-	115,356
Interest payable	134,131	-	134,131
Total current liabilities	2,147,217	563	2,147,780
Noncurrent Liabilities:			
Noncurrent portion of KSBIT assessment	227,518	-	227,518
Noncurrent portion of bond obligations	17,378,387	-	17,378,387
Noncurrent portion of accrued sick leave	205,083	-	205,083
Total noncurrent liabilities	17,810,988	-	17,810,988
Total liabilities	19,958,205	563	19,958,768
Net Position:			
Net investment in capital assets	8,341,646	47,258	8,388,904
Restricted for:			
Future construction	174,670	-	174,670
Sick leave	205,083	-	205,083
Debt service	1,505,626	-	1,505,626
Inventory	-	84,936	84,936
New assets	-	592,770	592,770
Unrestricted	6,371,781	-	6,371,781
Total net position	\$ 16,598,806	\$ 724,964	\$ 17,323,770

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 22,806,016	\$ 167,141	\$ 4,237,062	\$ -	\$ (18,401,813)	\$ -	\$ (18,401,813)
Support services:							
Student	987,360	-	129,888	-	(857,472)	-	(857,472)
Instruction staff	202,522	-	17,585	-	(184,937)	-	(184,937)
District administrative	768,961	-	93,675	-	(675,286)	-	(675,286)
School administrative	1,827,161	-	-	-	(1,827,161)	-	(1,827,161)
Business	537,241	-	-	-	(537,241)	-	(537,241)
Plant operation and maintenance	4,039,074	-	-	-	(4,039,074)	-	(4,039,074)
Student transportation	2,235,455	-	-	-	(2,235,455)	-	(2,235,455)
Central office	-	-	-	-	-	-	-
Facilities acquisition and construction	420,150	-	-	1,578,626	1,158,476	-	1,158,476
Community service activities	622,933	-	383,355	-	(239,578)	-	(239,578)
Interest on long-term debt	751,846	-	-	-	(751,846)	-	(751,846)
Other	1,200	-	-	-	(1,200)	-	(1,200)
Total governmental activities	35,199,919	167,141	4,861,565	1,578,626	(28,592,587)	-	(28,592,587)
Business-Type Activities:							
Food service	2,484,735	94,694	2,577,000	-	-	186,959	186,959
Total primary government	\$ 37,684,654	\$ 261,835	\$ 7,438,565	\$ 1,578,626	(28,592,587)	186,959	(28,405,628)
			General Revenues:				
			Taxes:				
			Property taxes		2,912,769	-	2,912,769
			Motor vehicle taxes		685,901	-	685,901
			Utility taxes		1,110,908	-	1,110,908
			Investment earnings		46,331	2,552	48,883
			State and formula grants		22,721,400	-	22,721,400
			Gain (loss) on sales of fixed assets		278,034	-	278,034
			Miscellaneous		363,836	-	363,836
			Changes in net position		(473,408)	189,511	(283,897)
			Net position - beginning - restated		17,072,214	535,453	17,607,667
			Net position - ending		\$ 16,598,806	\$ 724,964	\$ 17,323,770

FUND FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 6,859,441	\$ (497,602)	\$ 1,505,626	\$ 339,091	\$ 8,206,556
Accounts receivable					
Taxes - current	75,147	-	-	-	75,147
Taxes - delinquent	8,974	-	-	-	8,974
Accounts receivable	186,179	-	-	-	186,179
Intergovernmental - state	-	123,683	-	-	123,683
Intergovernmental - indirect federal	-	657,212	-	-	657,212
Investments	96,374	-	-	-	96,374
Total assets and resources	\$ 7,226,115	\$ 283,293	\$ 1,505,626	\$ 339,091	\$ 9,354,125
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 47,086	\$ 17,843	\$ -	\$ 164,421	\$ 229,350
Payroll liabilities	54,208	-	-	-	54,208
Unearned revenue	-	265,450	-	-	265,450
Total liabilities	101,294	283,293	-	164,421	549,008
Fund Balances:					
Restricted For:					
Future construction	-	-	-	174,670	174,670
FSPK fund	-	-	-	-	-
Sick leave payable	205,083	-	-	-	205,083
Debt service	-	-	1,505,626	-	1,505,626
Unassigned:					
Undesignated, reported in:					
General fund	6,919,738	-	-	-	6,919,738
Total fund balances	7,124,821	-	1,505,626	174,670	8,805,117
Total liabilities and fund balances	\$ 7,226,115	\$ 283,293	\$ 1,505,626	\$ 339,091	\$ 9,354,125

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

June 30, 2014

Total fund balance per fund financial statement	\$ 8,805,117
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the Statement of Net Position.	26,979,020
Deferred outflows of resources are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the Statement of Net Position.	223,866
Certain liabilities (such as KSBIT assessments, bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the Statement of Net Position.	<u>(19,409,197)</u>
Net position for governmental activities	<u>\$ 16,598,806</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	General Fund	Special Revenue	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources					
Taxes					
Property	\$ 2,579,245	\$ -	\$ -	\$ 333,524	\$ 2,912,769
Motor vehicle	685,901	-	-	-	685,901
Utilities	1,110,908	-	-	-	1,110,908
Tuition and fees	167,141	-	-	-	167,141
Earnings on investments	37,866	365	8,100	-	46,331
Other local revenues	355,157	235,341	-	8,679	599,177
Intergovernmental – state	22,654,597	1,601,525	376,258	1,105,783	25,738,163
Intergovernmental – indirect federal	66,803	3,024,699	96,585	-	3,188,087
Total revenues	27,657,618	4,861,930	480,943	1,447,986	34,448,477
Expenditures:					
Instruction	17,843,983	4,290,790	-	-	22,134,773
Support services:					
Student	855,553	129,888	-	-	985,441
Instruction staff	181,054	17,585	-	-	198,639
District administrative	686,147	93,675	-	-	779,822
School administrative	1,823,473	-	-	-	1,823,473
Business	533,716	-	-	-	533,716
Plant operation and maintenance	3,630,407	-	-	-	3,630,407
Student transportation	1,986,055	-	-	-	1,986,055
Central office	-	-	-	-	-
Facilities acquisition and construction	-	-	-	2,907,451	2,907,451
Community service activities	239,578	383,355	-	-	622,933
Other	-	-	3,441,468	-	3,441,468
Total expenditures	27,779,966	4,915,293	3,441,468	2,907,451	39,044,178
Excess (deficit) of revenues over expenditures	(122,348)	(53,363)	(2,960,525)	(1,459,465)	(4,595,701)
Other Financing Sources (Uses):					
Bond proceeds	-	-	2,719,059	-	2,719,059
Proceeds from sale of fixed assets	278,034	-	-	-	278,034
Operating transfers in	111,239	53,363	1,371,400	-	1,536,002
Operating transfers out	(50,957)	-	-	(1,485,045)	(1,536,002)
Non operating transfers in	-	-	57,575	2,719,059	2,776,634
Non operating transfers out	-	-	(2,776,634)	-	(2,776,634)
Total other financing sources (uses)	338,316	53,363	1,371,400	1,234,014	2,997,093
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	215,968	-	(1,589,125)	(225,451)	(1,598,608)
Fund balance, July 1, 2013 - Restated	6,908,853	-	3,094,751	400,121	10,403,725
Fund balance, June 30, 2014	\$ 7,124,821	\$ -	\$ 1,505,626	\$ 174,670	\$ 8,805,117

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY 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 total fund balances per fund financial statements	\$(1,598,608)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use 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 outlay exceeds depreciation for the year.	1,400,036
The issuance of long-term debt (bonds and financial obligations) provides current financial resources to government funds, while bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the Statement of Net Position.	14,663
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the Statement of Activities when they are incurred.	<u>(289,499)</u>
Change in net position of governmental activities	<u><u>\$ (473,408)</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2014

	<u>Food Service Fund</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 583,748
Inventory	84,936
Accounts receivable	
Intergovernmental – indirect federal	<u>9,585</u>
Total current assets	678,269
Noncurrent Assets:	
Capital assets	531,584
Less: accumulated depreciation	<u>484,326</u>
Total noncurrent assets	<u>47,258</u>
Total assets	<u><u>\$ 725,527</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>\$ 563</u>
Total current liabilities	563
Net Position:	
Net investment in capital assets	47,258
Restricted For:	
Inventory	84,936
New assets	<u>592,770</u>
Total net position	<u><u>\$ 724,964</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PROPRIETARY FUND

For the year ended June 30, 2014

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 94,694
 Total operating revenues	94,694
Operating Expenses:	
Employee wages and benefits	1,076,344
Materials and supplies	1,361,483
Depreciation	15,884
Other operating expenses	<u>31,024</u>
 Total operating expenses	<u>2,484,735</u>
Operating loss	(2,390,041)
Non-Operating Revenues (Expenses):	
Federal grants	2,199,183
Donated commodities	185,769
State grants	192,048
Interest income	<u>2,552</u>
 Total non-operating revenues	<u>2,579,552</u>
Change in net position	189,511
Net Position, July 1, 2013	<u>535,453</u>
Net Position, June 30, 2014	<u><u>\$ 724,964</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the year ended June 30, 2014

Cash Flows from Operating Activities:

Cash received from:	
Lunchroom sales	\$ 94,694
Cash paid to/for:	
Employees	(908,652)
Material and supplies	(1,201,448)
Other activities	<u>(31,024)</u>
Net cash provided by (used for) operating activities	(2,046,430)

Cash Flows from Noncapital Financing Activities:

Government grants	<u>2,217,238</u>
Net cash provided by noncapital and related financing activities	2,217,238

Cash Flows from Capital and Related Financing Activities:

Purchases of capital assets	<u>-</u>
Net cash used for capital and related financing activities	-

Cash Flows from Investing Activities:

Receipt of interest income	<u>2,552</u>
Net cash provided by investing activities	2,552

Net (decrease) in cash and cash equivalents 173,360

Balances, beginning of year 410,388

Balances, end of year \$ 583,748

Reconciliation of operating income (loss) to net cash provided

(used) by operating activities

Operating (loss)	\$ (2,390,041)
------------------	----------------

Adjustments to reconcile operating income to net cash provided

(used) by operating activities	
Depreciation	15,884
Donated commodities	185,769
On-behalf payments	167,692
Change in assets and liabilities	
Inventory	(26,297)
Accounts payable	<u>563</u>
Net cash provided by (used for) operating activities	<u><u>\$ (2,046,430)</u></u>

Schedule of non-cash transactions:

Donated commodities received from federal government	\$ 185,769
On-behalf payments	167,692

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND

June 30, 2014

	<u>Permanent Trust Fund</u>	<u>Agency Fund</u>
Assets:		
Cash and cash equivalents	\$ 66,411	\$ 279,403
Accounts receivable	-	7,521
	<u> </u>	<u> </u>
Total assets	<u><u>\$ 66,411</u></u>	<u><u>\$ 286,924</u></u>
Liabilities:		
Accounts payable	\$ 121	\$ 12,864
Due student groups	-	274,060
	<u> </u>	<u> </u>
Total liabilities	<u>121</u>	<u>286,924</u>
Net position held in trust	<u><u>\$ 66,290</u></u>	<u><u>\$ -</u></u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	<u>Permanent Trust Fund</u>
Revenues:	
Other local revenues	<u>\$ 13,161</u>
Total revenues	<u>13,161</u>
Expenditures:	
Instruction	4,725
Support Services:	
District administrative	<u>3,459</u>
Total expenditures	<u>8,184</u>
Change in net position	4,977
Net Position, July 30, 2013	<u>61,313</u>
Net Position, July 30, 2014	<u><u>\$ 66,290</u></u>

See independent auditor's report and accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Johnson County School District have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The following is a summary of the more significant of these policies.

Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Johnson County Board of Education. 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 Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

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

Basis of Presentation

Government-Wide Financial Statements -- The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, 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 enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures and Changes in Fund Balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. Accordingly, the Statement of Revenues, Expenses, and Changes in Fund Net Position for the proprietary fund reports increases and decreases in total economic net worth. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The district may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main 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.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (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 fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Type (Enterprise Fund)

The Food Service Fund is used to account 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.

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 and Private Purpose Trust Funds)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. The permanent trust fund is accounted for as an expendable trust fund on the modified accrual basis.

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

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Due to GASB 65, this now has been re-characterized as unearned revenue.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenses, and Changes in Net Position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

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

Property Taxes

Property Tax Revenues – Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.369 per \$100 valuation for real property, \$.369 per \$100 valuation for business personal property and \$.525 per \$100 valuation for motor vehicles.

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

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. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
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
Rolling stock	15 years
Other	10 years

Interfund Balances

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

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence 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 account "accumulated sick leave payable" in the General Fund. The noncurrent portion of the liability is not reported.

Budgetary Process

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board 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 as dictated by 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.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The Food Service Fund is stated at cost and uses the specific identification method and the General Fund is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2014 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.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Position. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position includes a separate 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 only has two items that qualifies for reporting in this category. It is the deferred charge on debt discount and on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The debt discount is deferred and amortized over the life of the debt.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund equity reserves have been established for inventories and fixed assets.

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the district using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the General Fund, amounts constrained by intent to be used for a specified purpose by the District or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the General Fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the district issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the district has designated the board to carry out the intent of the school district.

It is policy of the District to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the Balance Sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the district incurs no liability until performance has occurred on the part of the party with whom the district has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Position

Net positions represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the district-wide financial statements. Net positions are classified in the following categories:

Net investments in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

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

Recently Issued and Adopted Accounting Pronouncements

The Governmental Accounting Standards Board has issued several new pronouncements that the District has reviewed for application to their accounting and reporting.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, is effective for periods beginning after December 15, 2011. This standard provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District implemented this reporting during 2013. The components of net position were renamed to reflect the requirements of this statement.

In March 2012, the GASB issued Statement 66, *Technical Corrections–2012-an amendment of GASB Statements No. 10 and No. 62*. GASB 66 improves accounting and financial reporting for a governmental

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASB 66 does not have any impact on the District's financial statements.

In March 2012 the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012.

Recently Issued Accounting Pronouncements

In June 2012, the GASB approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of state and local government employers and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, addresses financial reporting for state and local government employers whose employees are provided with pensions through pension plans that are covered under Statement No. 67.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Statement No. 68 will take effect for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later). The District is currently evaluating the effects of this statement on its financial statements.

NOTE B – ON-BEHALF PAYMENTS

For the year ended June 30, 2014 total payments of \$6,114,540 were made for debt service, life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. In addition, \$96,585 was made from federal sources to satisfy a QZAB Bond payment. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the Statement of Activities. However, the on-behalf payments are not budgeted on the budget to actual statements.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE C – ESTIMATES

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

NOTE D – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation insurance.

At June 30, 2014, the carrying amount of the District's deposits was \$9,136,118 and the bank balance was \$10,483,689. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

The deposits were deemed collateralized under Kentucky Law during the year. The Kentucky Department of Education maintains copies of all safekeeping receipts in the name of the District. The following is disclosed:

- a. Name of bank: Citizens National Bank.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$16,415,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1 Deposits which are insured to collateralized with securities held by the District or by its agent in the District's name.
- Category 2 Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits which are not collateralized or insured.

As of June 30, 2014, based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Breakdown per financial statements:

Governmental funds	\$ 8,206,556
Proprietary funds	583,748
Permanent trust funds	66,411
Agency funds	<u>279,403</u>
	<u>\$ 9,136,118</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE E – INVESTMENTS

At year-end the District's investment was as follows:

	<u>Fair Value</u>
Certificate of Deposit	<u>\$96,374</u>

Johnson County School District has a certificate of deposit at Citizens National Bank that matures every 12 months. This CD has a fixed interest rate of .15%. Interest from this CD is reinvested quarterly back into the CD.

NOTE F – CAPITAL ASSETS

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
Governmental Activities				
Land	\$ 1,375,069	\$ -	\$ -	\$ 1,375,069
Construction work in progress	-	2,743,030	-	2,743,030
Land improvements	1,444,131	-	-	1,444,131
Buildings and improvements	35,852,825	-	816,152	35,036,673
Technology equipment	3,767,468	99,968	213,329	3,654,107
General equipment	593,748	-	7,048	586,700
Vehicles	<u>4,580,960</u>	<u>-</u>	<u>288,206</u>	<u>4,292,754</u>
Totals at historical cost	<u>47,614,201</u>	<u>2,842,998</u>	<u>1,324,735</u>	<u>49,132,464</u>
Less: accumulated depreciation				
Land improvements	902,566	64,749	-	967,315
Buildings and improvements	13,404,811	957,783	560,424	13,802,170
Technology equipment	3,455,437	152,390	213,329	3,394,498
Vehicles	3,515,568	248,026	288,205	3,475,389
General equipment	501,106	20,014	7,048	514,072
Total accumulated depreciation	<u>21,779,488</u>	<u>1,442,962</u>	<u>1,069,006</u>	<u>22,153,444</u>
Governmental Activities Capital Assets – Net	<u>\$25,834,713</u>	<u>\$ 1,400,036</u>	<u>\$ 255,729</u>	<u>\$26,979,020</u>
Business-Type Activities				
General equipment	\$ 502,720	\$ -	\$ 1,618	\$ 501,102
Technology equipment	<u>30,482</u>	<u>-</u>	<u>-</u>	<u>30,482</u>
Totals at historical cost	<u>533,202</u>	<u>-</u>	<u>1,618</u>	<u>531,584</u>
Less: accumulated depreciation				
General equipment	446,555	13,424	1,618	458,361
Technology equipment	23,505	2,460	-	25,965
Total accumulated depreciation	<u>470,060</u>	<u>15,884</u>	<u>1,618</u>	<u>484,326</u>
Business-Type Activities Capital Assets – Net	<u>\$ 63,142</u>	<u>\$ (15,884)</u>	<u>\$ -</u>	<u>\$ 47,258</u>

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE F – CAPITAL ASSETS - CONTINUED

Depreciation expense has been charged to the following functions in the statement of activities:

Instruction	\$ 751,391
Instruction – staff	3,883
District administrative	20,489
School administrative	3,688
Plant operation and maintenance	408,667
Student transportation	249,400
Business support services	3,525
Student support services	1,919
Food service	15,884
	<u>\$1,458,846</u>

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS

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

<u>Issue Date</u>	<u>Amounts</u>	<u>Interest Rates</u>
2004	1,815,000	2.150% - 4.900%
2005	1,730,000	3.250% - 4.150%
2007 Refinancing	3,695,000	3.400% - 3.700%
2007	990,000	3.700% - 4.000%
2009 Refinancing	4,505,000	1.500% - 3.625%
2010	1,955,000	.750% - 4.300%
2011	1,875,000	1.250% - 4.250%
2011 Refinancing	2,020,000	.500% - 3.000%
2012 Refinancing	1,755,000	1.050% - 2.450%
2013 Refinancing	1,605,000	.700% - 2.000%
2013	2,790,000	.400% - 4.000%

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

The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

On November 26, 2013, the District issued \$2,790,000 in School Building Revenue Bonds (Series 2013) with an interest rate ranging from .40% to 4.00% to finance improvements at various locations.

On May 9, 2013, the District refinanced the School Building Revenue Bonds (Series 2005) with a cumulative savings of \$141,674. The new 2013 bond series was issued for \$1,605,000 with an interest rate ranging from .7% to 2.0%.

On March 7, 2012, the District refinanced the School Building Revenue Bonds (Series 2004) with a cumulative savings of \$140,545. The new 2012 bond series was issued for \$1,755,000 with an interest rate ranging from 1.05% to 2.45%.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

On July 20, 2011, the District issued \$1,875,000 in School Building Revenue Bonds (Series 2011) with an interest rate ranging from 1.25% to 4.25% to finance roof improvements at various locations.

On July 12, 2011, the District refinanced the School Building Revenue Bonds (Series 2001) with a cumulative savings of \$185,694. The new 2011 bond series was issued for \$2,020,000 with an interest rate ranging from .5% to 3.0%.

On December 6, 2010, the District issued \$1,955,000 in School Building Revenue Bonds (Series 2010) with an interest rate ranging from .750% to 4.30% to finance roof improvements at various locations.

On April 1, 2009, the District refinanced the School Building Revenue Bonds (Series 1998 and Series 1999) with a cumulative savings of \$297,440. The new 2009 bond series was issued for \$4,505,000 with an interest rate ranging from 1.5% to 3.625%.

On May 9, 2007, the District issued \$990,000 in School Building Revenue Bonds (Series 2007) with an average interest rate of 3.85% to finance Johnson Central High School renovations.

On January 23, 2007, the District refinanced the School Building Revenue Bonds (Series 1997) with a cumulative savings of \$197,676. The new 2007 bond series was issued for \$3,695,000 with an interest rate ranging from 3.4% to 3.7%.

On November 1, 2005, the District issued \$1,730,000 in School Building Revenue Bonds (Series 2005) with an average interest rate of 3.70% to finance Johnson Central High School swimming pool renovations.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

<u>YEAR</u>	<u>JOHNSON COUNTY SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL REQUIREMENTS FOR YEAR</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2014-2015	\$ 957,291	\$ 433,717	\$ 312,709	\$ 116,363	\$ 1,820,080
2015-2016	2,415,208	374,366	319,792	108,740	3,218,106
2016-2017	1,022,628	314,141	327,372	100,929	1,765,070
2017-2018	1,054,325	279,263	335,675	92,800	1,762,063
2018-2019	842,694	245,468	297,306	83,787	1,469,255
2019-2020	865,654	221,795	189,346	75,391	1,352,186
2020-2021	890,777	199,646	194,223	70,513	1,355,159
2021-2022	910,393	175,981	199,607	65,130	1,351,111
2022-2023	654,642	155,496	205,358	59,379	1,074,875
2023-2024	673,451	138,310	211,549	53,186	1,076,496
2024-2025	503,994	119,676	181,006	46,607	851,283

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

<u>YEAR</u>	<u>JOHNSON COUNTY SCHOOL DISTRICT</u>		<u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u>		<u>TOTAL REQUIREMENTS FOR YEAR</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2025-2026	515,271	104,514	179,729	40,556	840,070
2026-2027	370,036	90,049	159,964	34,363	654,412
2027-2028	316,846	76,120	148,154	28,019	569,139
2028-2029	330,910	64,062	154,090	22,083	571,145
2029-2030	349,538	50,789	160,462	15,710	576,499
2030-2031	360,921	36,301	144,079	9,367	550,668
2031-2032	340,362	21,827	54,638	5,279	422,106
2032-2033	183,132	11,151	56,868	3,049	254,200
2033-2034	<u>187,218</u>	<u>3,745</u>	<u>47,782</u>	<u>955</u>	<u>239,700</u>
	<u>\$13,745,291</u>	<u>\$3,116,417</u>	<u>\$3,879,709</u>	<u>\$1,032,206</u>	<u>\$21,773,623</u>

During the year ended June 30, 2014 the District's debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/13</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/14</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$17,490,000	\$ 2,790,000	\$2,655,000	\$17,625,000	\$1,270,000

QUALIFIED ZONE ACADEMY BONDS

The Johnson County School District Finance Corporation issued \$1,825,000 of Qualified Zone Academy Bonds (QZAB), Series 2010, December 1, 2010 under a guaranteed investment contract whereby the Johnson County School District will remit to the low bidder Monticello Banking Company contributions to an escrow account \$1,338,275 over an eighteen year period. The federal government will pay directly to the bank most of the annual interest expense leaving the board a small portion of interest due twice a year. Funds from the escrow will be used to defease the entire bond upon maturity December 1, 2027. The minimum obligations of the funds at June 30, 2014 for the escrow and interest are as follows:

<u>Year</u>	<u>Johnson County School District</u>		<u>Federal Rebate</u>	<u>Total Requirements For Year</u>
	<u>Escrow</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2014-2015	\$ 78,722	\$ 2,007	\$ 100,193	\$ 180,922
2015-2016	78,722	2,008	100,192	180,922
2016-2017	78,722	2,007	100,193	180,922
2017-2018	78,722	2,008	100,192	180,922
2018-2019	78,722	2,007	100,193	180,922
2019-2020	78,722	2,008	100,192	180,922
2020-2021	78,722	2,007	100,193	180,922
2021-2022	78,722	2,008	100,192	180,922
2022-2023	78,722	2,007	100,193	180,922

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

<u>Year</u>	<u>Johnson County School District</u>		<u>Federal Rebate</u>	<u>Total Requirements For Year</u>
	<u>Escrow</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2023-2024	78,722	2,008	100,192	180,922
2024-2025	78,722	2,007	100,193	180,922
2025-2026	78,722	2,008	100,192	180,922
2026-2027	78,722	2,007	100,193	180,922
2027	<u>78,723</u>	<u>1,003</u>	<u>50,096</u>	<u>129,822</u>
	<u>\$1,102,109</u>	<u>\$27,100</u>	<u>\$1,352,599</u>	<u>\$2,481,808</u>

During the year ended June 30, 2014 the District's QZAB debt obligation to the escrow was as follows:

<u>AMOUNT OUTSTANDING 6/30/13</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/14</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$1,180,831	\$ -	\$78,722	\$1,102,109	\$78,722

The Johnson County School District Finance Corporation issued \$1,223,000 of Qualified Zone Academy Bonds (QZAB), Series 2007, October 9, 2007 under a guaranteed investment contract whereby the Johnson County School District remitted to the low bidder, Citizens National Bank, Paying Agent, \$670,000. This initial investment was required to defease the entire bond issue due October 8, 2022. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The District issued a (QZAB), Series 2006, January 12, 2006 where a one time payment of \$285,000 was required to defease the entire bond issue due January 25, 2021. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The District issued a (QZAB), Series 2001, December 27, 2000 where a one time payment of \$1,705,000 was required to defease the entire bond issue due January 11, 2014. This money was put into a guaranteed escrow account that will be used to defease the bond upon maturity.

The private business contribution requirement for Qualified Zone Academy Bonds (QZAB) as set out in Section 1397E of the Internal Revenue Code of 1986, as amended states that the issuer must certify that written assurances from private business contribution be met with respect to such bonds.

The Johnson County School District Educational Assistance Foundation, Inc., a private non-stock, non-profit charitable and educational corporation having for its corporate purpose the promotion of education and educational opportunities resolved and executed a written contribution contract with the Johnson County School District as required by the Internal Revenue Code for Qualified Zone Academy Bonds. These contributions for academy bond purposes can be from cash to goods in kind and is schedule as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2015	\$ 11,453
2016	10,831
2017	10,242
2018	9,685

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2019	9,158
2020	8,660
2021	8,189
2022	5,642
2023	<u>5,332</u>
	<u>\$ 79,192</u>

The private business contribution requirement for Qualified Zone Academy Bonds (QZAB) as set out in Section 1397E of the Internal Revenue Code of 1986, was met from private business contributions. The amount provided was \$292,927 with the requirement being \$38,085.

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District had no commitments under noncapitalized leases at June 30, 2014.

NOTE I – KSBIT PAYABLE

The Kentucky School Board Insurance Trust (“KSBIT”) notified the District during 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under novation method, the District’s liability would be \$342,874. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. The District has voted to finance this obligation over a six year period. The minimum obligations of the funds at June 30, 2014 for principal only are as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
2015	\$ 115,356
2016	77,436
2017	77,437
2018	18,162
2019	18,161
2020	18,161
2021	<u>18,161</u>
	<u>\$ 342,874</u>

During the year ended June 30, 2014 the District’s debt obligation was as follows:

<u>AMOUNT OUTSTANDING 6/30/13</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>AMOUNT OUTSTANDING 6/30/14</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
\$342,874	\$ -	\$ -	\$342,874	\$115,356

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE J – PENSION PLANS

KENTUCKY TEACHERS' RETIREMENT

The Johnson County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. 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 that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

Funding Policy – Contribution rates 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 a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment 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. Members 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.

The Johnson County School District's total payroll for the year was \$22,443,004. The payroll for employees covered under KTRS was \$16,623,646. For the year ended June 30, 2014, the Commonwealth contributed \$2,360,608 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2014 was \$474,930, which represents those employees covered by federal programs.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE J – PENSION PLANS - CONTINUED

COUNTY EMPLOYEES' RETIREMENT SYSTEM

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death 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 Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary if hired before September 1, 2008 and 6% if hired on or after September 1, 2008 through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 18.89% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2014 was \$1,103,169, which consisted of \$863,465 from the District and \$239,704 from the employees.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE K - CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors 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 grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE L - LITIGATION

The District is subject to various other 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, except as described elsewhere in this report.

NOTE M - 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 is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE N - RISK MANAGEMENT

The District is exposed to various risks of loss of torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation,

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE N - RISK MANAGEMENT - CONTINUED

errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards' Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation 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 (24) months after the expiration of the self-insurance term. The Liability Insurance 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 and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) 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 three fiscal years.

NOTE O – DEFICIT OPERATING BALANCES

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

Debt Service Fund	\$1,589,125
FSPK Fund	\$ 45,738
Construction Fund	\$ 179,713
Agency Fund	\$ 54,594

NOTE P - 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 Q - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Capital Outlay	General	General	\$ 111,239
Operating	General	Special Revenue	Technology	\$ 50,957
Operating	Capital Outlay	Debt Service	Debt Service	\$ 219,879
Operating	FSPK	Debt Service	Debt Service	\$1,151,521
Operating	Capital Outlay	Special Revenue	Correction	\$ 2,406
Non-operating	Debt Service	Construction	Construction	\$2,719,059
Non-operating	Debt Service	Debt Service	Debt Service	\$ 57,575

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2014

NOTE R – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2014.

NOTE S – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 27, 2014, the date on which the financial statements were available to be issued.

NOTE T – PRIOR PERIOD ADJUSTMENT

The permanent trust fund is a fiduciary fund that in the past has erroneously been accounted for in the governmental funds section of the audit report. This year the permanent trust fund was accounted for in the fiduciary section of the audit report which resulted in a restatement (prior period adjustment) to the beginning net position as follows:

Statement of Activities – Governmental Activities	\$61,313 decrease
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In addition, the change resulted in a restatement (prior period adjustment) to beginning fund balance as follows:

Statement of Revenues, Expenditures, and Changes in Fund Balances – Government Funds – Other Governmental Funds	\$61,313 decrease
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Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Funds – Total Nonmajor Governmental Funds	\$61,313 decrease
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JOHNSON COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

GENERAL FUND

For the year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources				
Taxes				
Property	\$ 1,930,719	\$ 1,930,719	\$ 2,579,245	\$ 648,526
Motor vehicle	500,000	500,000	685,901	185,901
Utilities	900,000	900,000	1,110,908	210,908
Tuition and fees	175,000	175,000	167,141	(7,859)
Earnings on investments	45,811	60,000	37,866	(22,134)
Other local revenues	16,000	16,000	355,157	339,157
Intergovernmental - state	17,291,090	17,063,559	22,654,597	5,591,038
Intergovernmental - indirect federal	50,000	50,000	66,803	16,803
Total revenues	20,908,620	20,695,278	27,657,618	6,962,340
Expenditures:				
Instruction	13,918,928	13,879,224	17,843,983	(3,964,759)
Support services:				
Student	722,016	722,016	855,553	(133,537)
Instruction staff	182,485	180,929	181,054	(125)
District administrative	3,713,775	3,501,831	686,147	2,815,684
School administrative	1,564,258	1,564,258	1,823,473	(259,215)
Business	382,151	382,151	533,716	(151,565)
Plant operation and maintenance	3,307,807	3,347,606	3,630,407	(282,801)
Student transportation	2,388,167	2,388,167	1,986,055	402,112
Central office	-	-	-	-
Community service activities	242,995	243,058	239,578	3,480
Other	308,894	308,894	-	308,894
Total expenditures	26,731,476	26,518,134	27,779,966	(1,261,832)
Excess (deficit) of revenues over expenditures	(5,822,856)	(5,822,856)	(122,348)	5,700,508
Other Financing Sources (Uses):				
Proceeds from sale of fixed assets	-	-	278,034	278,034
Operating transfers in	-	-	111,239	111,239
Operating transfers out	-	-	(50,957)	(50,957)
Total other financing sources (uses)	-	-	338,316	338,316
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(5,822,856)	(5,822,856)	215,968	6,038,824
Fund balance, July 1, 2013	5,822,856	5,822,856	6,908,853	1,085,997
Fund balance, June 30, 2014	\$ -	\$ -	\$ 7,124,821	\$ 7,124,821

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

For the year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Earnings on investments	\$ -	\$ -	\$ 365	\$ 365
Other local revenues	43,000	43,000	235,341	192,341
State aid	1,425,811	1,391,123	1,601,525	210,402
Federal aid	2,334,281	2,972,191	3,024,699	52,508
Total revenues	3,803,092	4,406,314	4,861,930	455,616
Expenditures:				
Current:				
Instruction	3,375,879	3,862,741	4,290,790	(428,049)
Support Services:				
Student	18,880	130,886	129,888	998
Instructional staff	14,763	14,763	17,585	(2,822)
District administration	-	-	93,675	(93,675)
School administration	-	-	-	-
Business	-	-	-	-
Plant operations and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Community services activities	393,570	396,714	383,355	13,359
Other	-	-	-	-
Total expenditures	3,803,092	4,405,104	4,915,293	(510,189)
Excess (deficit) of revenues over expenditures	-	1,210	(53,363)	(54,573)
Other Financing Sources (Uses):				
Transfers in	-	-	53,363	53,363
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	53,363	53,363
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	1,210	-	(1,210)
Fund balance July 1, 2013	-	(1,210)	-	1,210
Fund balance June 30, 2014	\$ -	\$ -	\$ -	\$ -

See independent auditor's report and accompanying notes to financial statements.

COMBINING STATEMENTS - NONMAJOR FUNDS

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	<u>FSPK Fund</u>	<u>Seek Capital Outlay Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets and Resources:				
Cash and cash equivalents	\$ -	\$ -	\$ 339,091	\$ 339,091
Accounts receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,091</u>	<u>\$ 339,091</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,421</u>	<u>\$ 164,421</u>
Total liabilities	-	-	164,421	164,421
Fund Balances:				
Restricted For:				
Future construction	<u>-</u>	<u>-</u>	<u>174,670</u>	<u>174,670</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>174,670</u>	<u>174,670</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 339,091</u>	<u>\$ 339,091</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	FSPK Fund	SEEK Capital Outlay Fund	Construction Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources				
Taxes:				
Property	\$ 333,524	\$ -	\$ -	\$ 333,524
Earnings on investments	-	-	-	-
Other local revenues	-	-	8,679	8,679
Intergovernmental - state	772,259	333,524	-	1,105,783
Intergovernmental - indirect federal	-	-	-	-
Total revenues	1,105,783	333,524	8,679	1,447,986
Expenditures:				
Instruction	-	-	-	-
Support services:				
Student	-	-	-	-
Instruction staff	-	-	-	-
Direct administrative	-	-	-	-
School administrative	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Facilities and construction	-	-	2,907,451	2,907,451
Community service activities	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	2,907,451	2,907,451
Excess (deficit) of revenues over expenditures	1,105,783	333,524	(2,898,772)	(1,459,465)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(1,151,521)	(333,524)	-	(1,485,045)
Non operating transfers in	-	-	2,719,059	2,719,059
Total other financing sources (uses)	(1,151,521)	(333,524)	2,719,059	1,234,014
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(45,738)	-	(179,713)	(225,451)
Fund balance, July 1, 2013 - Restated	45,738	-	354,383	400,121
Fund balance, June 30, 2014	\$ -	\$ -	\$ 174,670	\$ 174,670

See independent auditor's report and accompanying notes to financial statements.

OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2014

	<u>Johnson County Elementary Athletic Association</u>	<u>Johnson Central High School</u>	<u>Central Elementary</u>	<u>Flat Gap Elementary</u>	<u>Meade Memorial Elementary</u>	<u>Highlands Elementary</u>	<u>Porter Elementary</u>	<u>W. R. Castle Memorial Elementary</u>	<u>Johnson County Alternative School</u>	<u>Johnson County Middle School</u>	<u>Totals</u>
Assets:											
Cash	\$ 604	\$ 94,213	\$ 15,472	\$ 14,783	\$ 29,754	\$ 39,181	\$ 24,695	\$ 18,780	\$ 296	\$ 41,625	\$ 279,403
Accounts receivable	-	6,102	-	-	-	114	-	-	-	1,305	7,521
Total assets	<u>\$ 604</u>	<u>\$ 100,315</u>	<u>\$ 15,472</u>	<u>\$ 14,783</u>	<u>\$ 29,754</u>	<u>\$ 39,295</u>	<u>\$ 24,695</u>	<u>\$ 18,780</u>	<u>\$ 296</u>	<u>\$ 42,930</u>	<u>\$ 286,924</u>
Liabilities and Fund Balances:											
Accounts payable	\$ -	\$ 6,111	\$ 235	\$ 3,300	\$ 176	\$ 364	\$ 1,015	\$ 178	\$ -	\$ 1,485	\$ 12,864
Due to student groups	604	94,204	15,237	11,483	29,578	38,931	23,680	18,602	296	41,445	274,060
Total liabilities	<u>\$ 604</u>	<u>\$ 100,315</u>	<u>\$ 15,472</u>	<u>\$ 14,783</u>	<u>\$ 29,754</u>	<u>\$ 39,295</u>	<u>\$ 24,695</u>	<u>\$ 18,780</u>	<u>\$ 296</u>	<u>\$ 42,930</u>	<u>\$ 286,924</u>

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS (AGENCY FUND)

For the year ended June 30, 2014

	Johnson County Athletic Association	Johnson Central High School	Central Elementary	Flat Gap Elementary	Meade Memorial Elementary	Highlands Elementary	Porter Elementary	W. R. Castle Memorial Elementary	Johnson County Alternative School	Johnson County Middle School	Totals
Revenues:											
School activities and projects funds	\$ -	\$ 477,134	\$ 58,295	\$ 42,448	\$ 32,341	\$ 82,661	\$ 72,685	\$ 62,030	\$ 79	\$ 199,219	\$ 1,026,892
Athletic fund	40,668	332,721	13,615	26,055	8,414	22,987	19,141	29,514	-	67,053	560,168
Total revenues	40,668	809,855	71,910	68,503	40,755	105,648	91,826	91,544	79	266,272	1,587,060
Expenditures:											
School activities and projects funds	-	475,619	55,360	45,055	42,460	92,502	72,848	60,887	2,595	159,542	1,006,868
Athletic fund	40,594	335,456	10,773	28,619	4,549	29,894	24,306	28,889	-	131,706	634,786
Total expenditures	40,594	811,075	66,133	73,674	47,009	122,396	97,154	89,776	2,595	291,248	1,641,654
Excess (deficiency) of revenues over expenditures	74	(1,220)	5,777	(5,171)	(6,254)	(16,748)	(5,328)	1,768	(2,516)	(24,976)	(54,594)
Due Student Groups, July 1, 2013	530	95,424	9,460	16,654	35,832	55,679	29,008	16,834	2,812	66,421	328,654
Due Student Groups, June 30, 2014	\$ 604	\$ 94,204	\$ 15,237	\$ 11,483	\$ 29,578	\$ 38,931	\$ 23,680	\$ 18,602	\$ 296	\$ 41,445	\$ 274,060

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS

SCHOOL ACTIVITY FUNDS - JOHNSON CENTRAL HIGH SCHOOL (AGENCY FUND)

For the year ended June 30, 2014

Name of Activity:	Cash			Cash	Accounts	Accounts	Fund
	Balances July 1, 2013	Receipts	Disbursements	Balances June 30, 2014	Receivable June 30, 2014	Payable June 30, 2014	Balances June 30, 2014
Academic	\$ 5,874	\$ 21,518	\$ 27,392	\$ -	\$ 457	\$ -	\$ 457
Academic Team Scholarship	-	2,000	-	2,000	-	-	2,000
All CTE Programs	1,560	7,871	8,732	699	-	-	699
Americorp/YSC	4,308	5,698	5,466	4,540	-	-	4,540
Apple Blossom Pageant	-	5,310	5,310	-	-	-	-
Art	213	-	58	155	-	-	155
Athletics	8,678	327,076	332,707	3,047	5,645	2,749	5,943
Athletic Training	-	525	-	525	-	523	2
Band	1,049	1,395	2,231	213	-	-	213
Bass Fishing Club	1,980	8,551	7,181	3,350	-	-	3,350
Beta Club	526	5,693	5,844	375	-	-	375
Carpentry - Skills USA	2,884	521	304	3,101	-	-	3,101
Choir	16	3,502	3,502	16	-	-	16
Cooking Lab	-	391	391	-	-	-	-
Eagle's Cry Newspaper Fund	148	-	148	-	-	-	-
FBLA Fund	1,163	1,733	185	2,711	-	-	2,711
FCA Fund	2,205	1,330	1,829	1,706	-	-	1,706
FCCLA National	3,120	11,602	13,703	1,019	-	-	1,019
FFA Fund	554	6,212	6,693	73	-	-	73
Freshman Class	25	-	25	-	-	-	-
Freshman Prom	-	1,483	1,483	-	-	-	-
HOSA	2,191	22,344	23,328	1,207	-	-	1,207
HOSA Cap	2,115	-	1,800	315	-	-	315
Interact Club	1,611	269	1,016	864	-	-	864
JC Dance	-	7,260	1,706	5,554	-	1,078	4,476
JCHS Barbell Club	2,855	3,181	5,935	101	-	-	101
JCHS Cheerleaders	4,456	46,474	33,931	16,999	-	1,601	15,398
Junior Class	5,094	23,791	28,015	870	-	-	870
Key Club	3,186	3,496	2,656	4,026	-	-	4,026
Musical Theater	835	2,888	1,885	1,838	-	-	1,838
Project Prom	1,774	8,039	8,719	1,094	-	-	1,094
Project Prom Scholarship	8,665	7,450	6,250	9,865	-	-	9,865
Prom 2015	692	1,923	2,111	504	-	-	504
Public Relations	105	-	105	-	-	-	-
Scholarship Program	8,898	6,020	5,073	9,845	-	-	9,845
School Library	580	180	760	-	-	-	-
Senior Class	44	6,994	7,038	-	-	-	-
Service Learning Grant	75	4,309	4,384	-	-	-	-
Skills USA Scholarship	-	2,000	-	2,000	-	-	2,000
Sophomore Class	357	-	357	-	-	-	-
Spanish Club	94	-	-	94	-	-	94
STLP Student Tech Lead Program	224	18,694	18,918	-	-	-	-
Store Fund	7,492	174,176	178,812	2,856	-	160	2,696
Student Council Fund	3,807	3,790	7,049	548	-	-	548
Teachers Discretionary	1,121	28,065	28,124	1,062	-	-	1,062
Television Station	1,433	3,610	2,976	2,067	-	-	2,067
Textbooks	-	25	25	-	-	-	-
Vo-Ag Greenhouse	3,925	5,420	4,464	4,881	-	-	4,881
Yearbook	5,793	9,824	11,877	3,740	-	-	3,740
Young Democrats	305	-	-	305	-	-	305
Young Republicans	48	-	-	48	-	-	48
YSC Tee Shirt Fund	503	3,232	3,735	-	-	-	-
Totals	\$ 102,581	\$ 805,865	\$ 814,233	\$ 94,213	\$ 6,102	\$ 6,111	\$ 94,204

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the year ended June 30, 2014

	Issue of 2004	Issue of 2005	Issue of 2007 Refunding	Issue of 2007	Issue of 2009 Refunding	QZAB Series 2010	Issue of 2010	Issue of 2011 Refunding	Issue of 2011	Issue of 2012 Refunding	Issue of 2013 Refunding	Issue of 2013	Total Debt Service Funds
Revenues:													
Earning on investments	\$ 4,366	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,734	\$ -	\$ 8,100
Intergovernmental - state	-	22,494	-	18,154	160,259	-	116,256	-	-	37,124	10,791	11,180	376,258
Intergovernmental - federal	-	-	-	-	-	96,585	-	-	-	-	-	-	96,585
Total revenues	4,366	22,494	-	18,154	160,259	96,585	116,256	-	-	37,124	14,525	11,180	480,943
Expenditures:													
Current:													
Bond payments	1,460,000	30,000	420,000	30,000	490,000	78,722	70,000	60,000	10,000	55,000	30,000	-	2,733,722
Bond interest	69,410	60,575	65,270	33,405	101,269	102,200	62,744	47,988	66,191	33,050	22,305	42,139	706,546
Trust fees	-	400	400	400	-	-	-	-	-	-	-	-	1,200
Total expenditures	1,529,410	90,975	485,670	63,805	591,269	180,922	132,744	107,988	76,191	88,050	52,305	42,139	3,441,468
Excess (deficit) of revenues over expenditures	(1,525,044)	(68,481)	(485,670)	(45,651)	(431,010)	(84,337)	(16,488)	(107,988)	(76,191)	(50,926)	(37,780)	(30,959)	(2,960,525)
Other Financing Sources (Uses):													
Bond proceeds	-	-	-	-	-	-	-	-	-	-	-	2,719,059	2,719,059
Operating transfers in	-	10,906	485,670	45,651	431,010	84,337	16,488	103,184	76,191	50,926	36,078	30,959	1,371,400
Non operating transfers in	-	57,575	-	-	-	-	-	-	-	-	-	-	57,575
Non operating transfers out	-	-	-	-	-	-	-	-	-	-	(57,575)	(2,719,059)	(2,776,634)
Total other financing sources (uses)	-	68,481	485,670	45,651	431,010	84,337	16,488	103,184	76,191	50,926	(21,497)	30,959	1,371,400
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,525,044)	-	-	-	-	-	-	(4,804)	-	-	(59,277)	-	(1,589,125)
Fund balance, July 1, 2013	1,525,044	-	-	-	-	-	-	4,804	-	-	1,564,903	-	3,094,751
Fund balance, June 30, 2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,505,626	\$ -	\$ 1,505,626

See independent auditor's report and accompanying notes to financial statements.

JOHNSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

FEDERAL GRANTOR/ PASS - THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
<u>U.S. DEPT. OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
<u>CHILD NUTRITION CLUSTER</u>			
National School Lunch Program	10.555	7750002 13 7750002 14	\$ 347,150 1,032,039 <u>1,379,189</u>
Passed Through State Dept. of Agriculture:			
Food Donation (In-Kind Commodities)	10.555	1007	185,769 <u>1,564,958</u>
School Breakfast Program	10.553	7760005 13 7760005 14	199,380 608,598 <u>807,978</u>
Summer Food Service Program for Children	10.559	7690024 13 7740023 13	656 6,310 <u>6,966</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>2,379,902</u>
<u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I - Grants to Local Educational Agencies	84.010	3100002 12 3100002 13	183,208 973,883 <u>1,157,091</u>
Rural Education	84.358	3140002 13	<u>46,987</u>
Race to the Top - District Grants	84.413	3960002 11	<u>18,219</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3793G	<u>83,998</u>
Improving Teacher Quality - State Grants	84.367	3230002 12 3230002 13	70,080 176,924 <u>247,004</u>
Career and Technical Education - Basic Grants to States	84.048	3710002 13 4621332 13	37,795 3,826 <u>41,621</u>
			<u>1,594,920</u>

The accompanying notes are an integral part of this schedule.

(Continued next page)

JOHNSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the year ended June 30, 2014

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Through Grantor's Number	Federal Expenditures
<u>SPECIAL EDUCATION CLUSTER (IDEA)</u>			
Special Education - Grants to States	84.027	3810002 12 3810002 13	271,401 356,770 <hr/> 628,171
Special Education - Preschool Grants	84.173	3800002 12 3800002 13	27,154 9,908 <hr/> 37,062 <hr/> 665,233
TOTAL U.S. DEPT. OF EDUCATION			<hr/> 2,260,153
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through Big Sandy Area Community Action Program, Inc.:			
Head Start	93.600	04CH0712 47 04CH0712 48	147,565 392,835 <hr/> 540,400
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<hr/> 540,400
TOTAL FEDERAL FINANCIAL ASSISTANCE			<hr/> \$ 5,180,455

The accompanying notes are an integral part of this schedule.

JOHNSON COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2014, the District had no food commodities in inventory.

NOTE C – TYPE A PROGRAMS

Type A programs for the Johnson County School District is any program for which total expenditures of federal awards exceeded \$300,000 for fiscal year 2014. The District had the following programs and clusters that met the Type A program definition for fiscal year 2014:

<u>CFDA#</u>	<u>PROGRAM TITLE</u>	<u>EXPENDITURES</u>
Child Nutrition Cluster:		
10.555	Food Donation (In-Kind Contributions)	\$ 185,769
10.555	National School Lunch Program	1,379,189
10.553	School Breakfast Program	807,978
10.559	Summer Food Service Program for Children	<u>6,966</u>
		<u>2,379,902</u>
Special Education Cluster (IDEA):		
84.027	Special Education – Grants to States	628,171
84.173	Special Education – Preschool Grants	<u>37,062</u>
		<u>665,233</u>
84.010	Title I – Grants to Local Educational Agencies	<u>1,157,091</u>
93.600	Head Start	<u>540,400</u>
	Total Type A Programs	<u>\$ 4,742,626</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JOHNSON COUNTY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued *unmodified*:

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for major programs *unmodified*:

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

84.010	Title I – Grants to Local Educational Agencies
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

2014 – 001 Activity Funds Spent On Teachers

Condition: Teacher discretionary machines are in an area that students and parents have access to and use.

Criteria: If teachers want to use profits generated from these machines then the machines have to be in a location where only the teachers have access to and be used strictly by the staff.

Cause of Condition: Principal failed to move machines to a secure location.

Effect: Money generated from these machines was from the staff, students, and public and should be considered student activity funds to be used on the students only.

Recommendation: If the staff wants to use the profits generated from these machines as their own then they need to be moved to a location where only the staff has access. In addition, all profits generated from these machines last year need to be returned to the student activity account.

Management's Response: We will move the machines to a secure location and return all profits spent last year on the staff from profits generated from these machines during the 14/15 school year.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

The audit did not disclose any audit findings.

JOHNSON COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2014

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

**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***



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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

Members of the Board of Education
Johnson County School District
Paintsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the provisions of Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report; the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Johnson County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Johnson County School District's basic financial statements, and have issued our report thereon dated October 27, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Johnson County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2014-1.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Johnson County School District, in a separate letter dated October 27, 2014.

Johnson County School District's Response to Findings

Johnson County School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Johnson County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

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



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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

Members of the Board of Education
Johnson County School District
Paintsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Johnson County School District's 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 Johnson County School District's major federal programs for the year ended June 30, 2014. Johnson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Wells & Company, PSC

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

MANAGEMENT LETTER COMMENTS



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Kentucky State Committee for School District Audits
Members of the Board of Education
Johnson County School District
Paintsville, Kentucky

In planning and performing our audit of the financial statements of Johnson County School District (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 27, 2014, on the financial statements of the District.

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

Respectfully,

Wells & Company, P.S.C.

Certified Public Accountants
Paintsville, Kentucky
October 27, 2014

JOHNSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2014

PRIOR YEAR COMMENTS

All prior year comments were addressed and corrected by the District. Corrections were initiated and improvements made in the documentation that was recommended.

JOHNSON COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS - CONTINUED

June 30, 2014

CURRENT YEAR COMMENTS

Activity Fund 14-1 Student Break Inventory Is Coming Up Short With No Explanation

Condition: Student break inventory forms have large shortages of inventory with no explanation at the high school and middle school.

Criteria: Anytime you have a material shortage in inventory then an explanation must be documented on the inventory form as to what happened.

Cause of Condition: Snack inventory at the high school is being stolen. Principal was aware that a problem existed. Bookkeeper failed to document that the shortage was due to theft. No explanation was documented. At the middle school, bookkeeper was unaware that an explanation had to be given on the snack inventory forms as to why a shortage existed.

Effect: These two schools are losing money due to possible theft and no documentation is being shown that someone is noticing.

Recommendation: All large and material variances on the inventory form must have a reason as to why it is short. Also, all inventory at the high school should be moved to a location where only the person in charge has a key.

Management's Response: We will concur and take all necessary actions to prevent future theft with inventory and document a reason for any future variances as to what happened.