

**Jackson Independent School District
Jackson, Kentucky**

**Audited Financial Statements
and Other Financial Information**

June 30, 2012

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Jackson Independent School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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*, *Appendix III to 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 District as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable thereof and the respective budgetary comparison for the general fund and the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15 2012, on our consideration of the Jackson Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplemental schedules on pages 39 through 41 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 42 is presented for purposes of additional analysis as required by the 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
November 15, 2012

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the **Jackson Independent** School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS/OVERALL DISTRICT HIGHLIGHTS

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

The district ranked among the top twenty school districts on the newly revised Commonwealth Accountability Testing System, a tremendous accomplishment for a district with limited resources. This feat demonstrates that districts can succeed with limited resources, good management decisions, and a caring, dedicated staff working together for the best interest of our children. The district ACT Composite score was 20.5 for the 2011-12 school year which ranked #1 in our region.

Our school received a GEARUP grant through Berea College that provided students and staff access to new programs, professional development, and additional staff members. Some highlights of the program include the following: employed an Academic Specialist for students in grades 1-8, purchased IPADS for our school, designed professional development to improve student achievement, and increased college and career options for our students.

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

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

Our 2012 graduating class of 20 seniors received over \$350,000 in college/university scholarships. Among numerous other accomplishments by these seniors, this class included several students achieving an ACT score of 30 or better.

Our district continues to strive to overcome many obstacles especially with funding and decreased budget appropriations. The district has entered into a two year agreement with the county school district beginning with the 2012-2013 school year with stipulations on the number of students that can be enrolled that reside within the Breathitt County School District. The Jackson Independent Board of Education is committed to building a sound relationship with the Breathitt County System for the betterment of all children.

The ending General Fund balance for fiscal year 2012 was a deficit of (\$55,266) as compared to \$82,534 for fiscal year 2011. The ending fund balance is below the state-mandated 2% contingency balance.

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

The General Fund had \$3.0 million in revenues, which primarily consisted of the State program (SEEK), property, utility, and motor vehicle taxes. Excluding inter-fund transfers, there were \$3.1 million in General Fund expenditures.

The District is fortunate to have community support through the Jackson Independent Educational Foundation, with fundraising events such as “The Just in Time for the Holidays” Bazaar. Other financial accommodations with the local banking institutions provide services including a line of credit to off-set the federal and state programs reimbursement process.

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

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

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

The government-wide financial statements can be found on pages 8-9 of this report.

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

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

The basic governmental fund financial statements can be found on pages 10-19 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 20-38 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$814,015 as of June 30, 2012 as compared to \$804,807 in the prior year.

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

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

Net Assets for the periods ending June 30, 2012 and 2011

	June 30, 2012	June 30, 2011	Change
Current Assets	\$254,274	\$273,092	(\$18,818)
Noncurrent Assets	2,741,332	2,832,319	(90,987)
Total Assets	\$2,995,606	\$3,105,411	(\$109,805)
Current Liabilities	\$495,656	\$353,472	\$142,184
Noncurrent Liabilities	1,724,400	1,947,132	(222,732)
Total Liabilities	\$2,220,056	\$2,300,604	(\$80,548)
Net Assets			
Investment in capital assets (net of debt)	\$834,071	\$785,923	\$48,148
Unrestricted	(58,521)	18,884	(\$77,405)
Total Net Assets	\$775,550	\$804,807	(\$29,257)

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

Comments on Budget Comparisons

- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$730,901 more than budget. General fund budget compared to actual expenditures varied from line item to line item with the ending actual expenditures being \$815,979 more than budget. The variances of the General Fund budget compared to actual revenue and expenses are mainly due to on-behalf payments made by the state for retirement, health and life benefits.

Total governmental revenues for the fiscal year ended June 30, 2012, net of interfund transfers, were \$3.974 million, an increase of \$98,643 from total revenues of \$3.875 million in 2011. Total governmental fund expenses for the fiscal year ended June 30, 2012, net of interfund transfers, were \$3.951 million, a decrease of \$80,746 from total expenses of \$4.031 million in 2011.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2012 and 2011.

	Summary of Revenue and Expenditures					
	Governmental		Business-type		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Local revenue sources	\$372,746	\$355,878	\$57,051	\$48,736	\$429,797	\$448,671
State revenue sources	3,174,541	2,877,464	22,225	27,834	3,196,766	3,025,383
Federal revenue	426,030	640,369	188,962	223,426	614,992	837,732
Investments	266	1,229	39	0	305	1,877
Total revenue	3,973,583	3,874,940	268,238	299,996	4,241,821	4,174,963
Expenses:						
Instruction	2,624,760	2,620,545	0	0	2,591,679	2,603,540
Student support	16,226	40,879	0	0	16,226	24,226
Instructional support	74,576	77,566	0	0	74,576	77,710
District administration	303,916	339,429	0	0	298,488	343,988
School administration	156,758	165,867	0	0	156,758	166,604
Business Support	52,448	53,180	0	0	52,448	52,435
Plant operations	440,156	457,671	0	0	440,156	422,943
Student transportation	153,050	126,891	0	0	153,050	141,036
Community Service	42,961	46,163	0	0	42,961	47,562
Facilities acquisition	1,598	3,503	0	0	1,598	9,659
Interest on long-term	84,246	99,747	0	0	84,246	47,636
Food Service	0	0	281,957	286,625	281,957	288,971
Total expenses	3,950,695	4,031,441	281,957	286,625	4,232,652	4,318,066
Change in net assets	22,888	(156,501)	(13,680)	13,371	9,208	(143,130)
Beginning net assets	752,662	909,163	52,145	38,774	804,807	947,937
Ending net assets	\$775,550	\$752,662	\$38,465	\$52,145	\$814,015	\$804,807

**JACKSON INDEPENDENT SCHOOL DISTRICT – JACKSON, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

Governmental Activities

Instruction comprises 66% of governmental program expenses. Plant Operations expense makes up 11% of government expenses. District and School Administration total 12% of governmental expenses. The remaining expenses for support services, community service activities, transportation and interest account for the final 11% of total governmental expense.

Business-Type Activities

The business-type activities include the food service operations. This program had total revenues of \$268,238 and expenses of \$281,957 for fiscal year 2012. Of the revenues, \$57,051 was charges for services, and \$211,187 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

Debt

At June 30, 2012, the School District had \$1,941,147 in debt outstanding; of this amount \$452,913 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$216,747 is due within one year.

Capital Assets

The Board added \$112,300 in new assets during the year, primarily for technology equipment.

FUTURE BUDGETARY IMPLICATIONS

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

The CERS retirement employer rate increased to 19.55% beginning July 1, 2012, as mandated by State law. The KTRS retirement employer contribution to the retiree medical insurance fund is 1.00% and federally funded employees 14.105% as mandated. Federal Programs Health Insurance/Life Insurance reimbursements to the State of Kentucky are included in the District’s budget. For the upcoming FY12-13 school year, the district remains committed to maintaining the 185 day contracts for certified teachers and the same contract days as the FY11-12 contracts for classified staff as well. The district made this decision due to the General Assembly change to the maximum of 187 contract day funding and 0% raise allocations.

Effective for fiscal year 2012-13 management will submit federal cash request on a monthly basis versus a quarterly basis to expedite funding reimbursements. In support of this plan of action the District’s Board and management have assessed the current deficit situation and have approved a plan of temporary cash flow financing while also reviewing the current operating budget. The Board approved and obtained an operating line of credit of \$300,000, (See Note 18). The Bank has confirmed that the line of credit will be renewed as needed through December 31, 2013. Management and the Board will review the operating budget and seek areas to reduce costs while maintaining a quality education. We will also aggressively pursue new grant funding and local community support. The Board and management believe these actions will reduce the current deficit and establish an adequate cash reserve in fiscal year 2013 and future years.

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

JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 0	\$ 0	\$ 0
Accounts receivable			
Taxes	18,285	0	18,285
Accounts	101,963	21,684	123,647
Intergovernmental - State	134,026	0	134,026
Inventory	0	19,560	19,560
Total Current Assets	<u>254,274</u>	<u>41,244</u>	<u>295,518</u>
Noncurrent Assets			
Bond discounts and issue costs net of accumulated amortization of \$25,723	48,871	0	48,871
Non-depreciated capital assets	579,118	0	579,118
Net depreciated capital assets	<u>2,113,343</u>	<u>20,283</u>	<u>2,133,626</u>
Total Noncurrent Assets	<u>2,741,332</u>	<u>20,283</u>	<u>2,761,615</u>
TOTAL ASSETS	<u>\$ 2,995,606</u>	<u>\$ 61,527</u>	<u>\$ 3,057,133</u>
LIABILITIES:			
Current Liabilities			
Cash overdraft	241,823	4,768	246,591
Accounts payable	6,161	18,294	24,455
Deferred revenue	7,272	0	7,272
Accrued interest	23,653	0	23,653
Current portion of accrued sick leave	31,340	0	31,340
Current portion of bond obligations	151,025	0	151,025
Current portion of lease obligations	<u>34,382</u>	<u>0</u>	<u>34,382</u>
Total Current Liabilities	<u>495,656</u>	<u>23,062</u>	<u>518,718</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	1,507,955	0	1,507,955
Noncurrent portion of lease obligations	165,028	0	165,028
Noncurrent portion of accrued sick leave	<u>51,417</u>	<u>0</u>	<u>51,417</u>
Total Noncurrent Liabilities	<u>1,724,400</u>	<u>0</u>	<u>1,724,400</u>
TOTAL LIABILITIES	<u>2,220,056</u>	<u>23,062</u>	<u>2,243,118</u>
NET ASSETS			
Invested in capital assets, net of related debt	834,071	20,283	854,354
Unrestricted	<u>(58,521)</u>	<u>18,182</u>	<u>(40,339)</u>
TOTAL NET ASSETS	<u>775,550</u>	<u>38,465</u>	<u>814,015</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,995,606</u>	<u>\$ 61,527</u>	<u>\$ 3,057,133</u>

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS PRIMARY GOVERNMENT		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 2,624,760	\$ 0	\$ 1,441,980	\$ 0	\$ (1,182,780)	\$ 0	\$ (1,182,780)
Support Services:							
Student	16,226	0	0	0	(16,226)	0	(16,226)
Instructional staff	74,576	0	12,986	0	(61,590)	0	(61,590)
District administration	303,916	0	29,041	0	(274,875)	0	(274,875)
School administration	156,758	0	20,867	0	(135,891)	0	(135,891)
Business	52,448	0	7,929	0	(44,519)	0	(44,519)
Plant operations and maintenance	440,156	0	30,559	0	(409,597)	0	(409,597)
Student transportation	153,050	0	11,626	0	(141,424)	0	(141,424)
Non-Instructional	42,961	0	0	0	(42,961)	0	(42,961)
Facilities acquisition and construction	1,598	0	0	0	(1,598)	0	(1,598)
Interest on long-term debt	84,246	0	0	47,735	(36,511)	0	(36,511)
Total Governmental Activities	3,950,695	0	1,554,988	47,735	(2,347,972)	0	(2,347,972)
Business-type Activities:							
Lunchroom sales	281,957	57,051	211,187	0	0	(13,719)	(13,719)
Total Primary Government	\$ 4,232,652	\$ 57,051	\$ 1,766,175	\$ 47,735	\$ (2,347,972)	\$ (13,719)	\$ (2,361,691)
			General Revenues & Transfers:				
				\$ 161,816	\$ 0	\$ 161,816	
				15,354	0	15,354	
				152,029	0	152,029	
				1,997,848	0	1,997,848	
				266	39	305	
				43,547	0	43,547	
				2,370,860	39	2,370,899	
				22,888	(13,680)	9,208	
				752,662	52,145	804,807	
				\$ 775,550	\$ 38,465	\$ 814,015	

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS NON-MAJOR	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 0	\$ 0	\$ 22,012	\$ 932	\$ 22,944
Accounts receivable					
Due from other funds	126,754	0	0	0	126,754
Taxes	18,285	0	0	0	18,285
Other	101,963	0	0	0	101,963
Intergovernmental	0	134,026	0	0	134,026
TOTAL ASSETS	\$ 247,002	\$ 134,026	\$ 22,012	\$ 932	\$ 403,972
LIABILITIES:					
Due to other funds	\$ 0	\$ 126,754	\$ 0	\$ 0	\$ 126,754
Cash overdraft	264,767	0	0	0	264,767
Accounts payable	6,161	0	0	0	6,161
Accrued sick leave	31,340	0	0	0	31,340
Deferred revenue	0	7,272	0	0	7,272
TOTAL LIABILITIES	302,268	134,026	0	0	436,294
FUND BALANCES:					
Restricted					
Capital projects	0	0	0	932	932
Unassigned	(55,266)	0	22,012	0	(33,254)
TOTAL FUND BALANCES	(55,266)	0	22,012	932	(32,322)
TOTAL LIABILITIES AND FUND BALANCES	\$ 247,002	\$ 134,026	\$ 22,012	\$ 932	\$ 403,972

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Governmental Fund Balances	\$	(32,322)
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.		2,692,461
Certain assets are not reported in this fund financial statement because they are not available to pay current period expenditures, but they are in the statement of net assets.		
Bond discounts and issuance costs		48,871
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net assets.		
Bonds payable		(1,658,980)
Capital lease payable		(199,410)
Accrued interest		(23,653)
Accrued sick leave		(51,417)
 Net Assets of Governmental Activities	 \$	 <u><u>775,550</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS NON-MAJOR	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 142,827	\$ 0	\$ 0	\$ 18,989	\$ 161,816
Motor vehicle	15,354	0	0	0	15,354
Utilities	152,029	0	0	0	152,029
Earnings on investments	266	0	0	0	266
Other local revenues	43,547	0	0	0	43,547
Intergovernmental - State	2,660,309	318,901	0	195,331	3,174,541
Intergovernmental - Indirect federal	3,927	422,103	0	0	426,030
TOTAL REVENUES	<u>3,018,259</u>	<u>741,004</u>	<u>0</u>	<u>214,320</u>	<u>3,973,583</u>
EXPENDITURES:					
Current:					
Instruction:	1,909,499	682,180	0	0	2,591,679
Support Services:					
Student	0	13,950	0	0	13,950
Instructional staff	72,447	1,683	0	0	74,130
District administration	313,345	0	0	0	313,345
School administration	153,624	0	0	0	153,624
Business	52,448	0	0	0	52,448
Plant operations and maintenance	476,259	0	0	0	476,259
Student transportation	111,863	9,836	0	0	121,699
Non-instructional	0	42,659	0	0	42,659
Facilities acquisition and construction	0	0	0	1,598	1,598
Debt service	57,270	0	0	212,722	269,992
TOTAL EXPENDITURES	<u>3,146,755</u>	<u>750,308</u>	<u>0</u>	<u>214,320</u>	<u>4,111,383</u>
Excess (Deficit) of Revenues over Expenditures	<u>(128,496)</u>	<u>(9,304)</u>	<u>0</u>	<u>0</u>	<u>(137,800)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	0	9,304	0	0	9,304
Operating transfers out	(9,304)	0	0	0	(9,304)
TOTAL OTHER FINANCING SOURCES (USES):	<u>(9,304)</u>	<u>9,304</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(137,800)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(137,800)</u>
Fund balance - beginning	<u>82,534</u>	<u>0</u>	<u>22,012</u>	<u>932</u>	<u>105,478</u>
Fund balance - ending	<u>\$ (55,266)</u>	<u>\$ 0</u>	<u>\$ 22,012</u>	<u>\$ 932</u>	<u>\$ (32,322)</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds	\$ (137,800)
Amounts reported for governmental activities in the statement of activities are different because:	
Amortization of bond discounts and issuance costs are reported in the statement of activities but do not require current financial resources and therefore are not reported as expenditures in governmental funds.	(5,154)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in accrued interest	2,894
Change in accrued sick leave	37,326
Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	
Capital outlays	112,300
Depreciation expense	(174,684)
Long-term debt proceeds are reported as other financing resources in funds, thereby increasing fund balances. In the statement of net assets, however, issuing long-term debt increases liabilities and has no effect on net assets. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Debt principal repaid	<u>188,006</u>
Change in Net Assets of Governmental Activities	<u>\$ 22,888</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL GENERAL FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 123,000	\$ 123,000	\$ 142,827	\$ 19,827
Motor vehicle	20,000	20,000	15,354	(4,646)
Utilities	70,000	99,537	152,029	52,492
Earnings on investments	3,000	3,000	266	(2,734)
Other local revenues	38,900	38,900	43,547	4,647
Intergovernmental - State	1,826,683	1,999,771	2,660,309	660,538
Intergovernmental - Federal	0	3,150	3,927	777
TOTAL REVENUES	<u>2,081,583</u>	<u>2,287,358</u>	<u>3,018,259</u>	<u>730,901</u>
EXPENDITURES:				
Current:				
Instruction:	1,039,805	1,153,847	1,909,499	(755,652)
Support Services:				
Student	15,067	15,067	0	15,067
Instructional staff	55,042	47,653	72,447	(24,794)
District administration	493,627	394,296	313,345	80,951
School administration	146,238	144,738	153,624	(8,886)
Business	43,604	39,873	52,448	(12,575)
Plant operations and maintenance	327,834	351,049	476,259	(125,210)
Student transportation	96,111	91,612	111,863	(20,251)
Facilities acquisition and construction	6,764	6,764	0	6,764
Debt service	72,000	71,020	57,270	13,750
TOTAL EXPENDITURES	<u>2,296,092</u>	<u>2,315,919</u>	<u>3,146,755</u>	<u>(830,836)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(214,509)</u>	<u>(28,561)</u>	<u>(128,496)</u>	<u>(99,935)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>(10,492)</u>	<u>(9,602)</u>	<u>(9,304)</u>	<u>298</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>(10,492)</u>	<u>(9,602)</u>	<u>(9,304)</u>	<u>298</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	<u>(225,001)</u>	<u>(38,163)</u>	<u>(137,800)</u>	<u>(99,637)</u>
Fund balance - beginning	<u>244,145</u>	<u>38,163</u>	<u>82,534</u>	<u>44,371</u>
Fund balance - ending	<u>\$ 19,144</u>	<u>\$ 0</u>	<u>\$ (55,266)</u>	<u>\$ (55,266)</u>
Adjustments to Generally Accepted Accounting Principles:				
Intergovernmental State Revenue - On-behalf Payments			\$ 662,461	
Corresponding Expenses for On-behalf Payments:				
Instruction			(549,454)	
Support Services:				
Instructional staff			(12,986)	
District administration			(29,041)	
School administration			(20,867)	
Business			(7,929)	
Plant operations and maintenance			(30,559)	
Student transportation			(11,625)	
Fund balance - ending (GAAP Basis)			<u>\$ (55,266)</u>	

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL SPECIAL REVENUE FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2012**

	SPECIAL REVENUE FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Intergovernmental - State	\$ 244,400	\$ 292,148	\$ 318,901	\$ 26,753
Intergovernmental - Indirect federal	517,173	421,171	422,103	932
TOTAL REVENUES	<u>761,573</u>	<u>713,319</u>	<u>741,004</u>	<u>27,685</u>
EXPENDITURES:				
Current:				
Instruction:	692,264	651,067	682,180	(31,113)
Support Services:				
Student	21,950	13,950	13,950	0
Instructional staff	4,503	2,272	1,683	589
Student transportation	6,551	12,674	9,836	2,838
Non-Instructional	45,907	42,660	42,659	1
TOTAL EXPENDITURES	<u>771,175</u>	<u>722,623</u>	<u>750,308</u>	<u>(27,685)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(9,602)</u>	<u>(9,304)</u>	<u>(9,304)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	9,602	9,304	9,304	0
Operating transfers out	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES):	<u>9,602</u>	<u>9,304</u>	<u>9,304</u>	<u>0</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0	0
Fund balance - beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance - ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012**

	<u>FOOD SERVICE FUND</u>
ASSETS:	
Current Assets	
Cash and cash equivalents	\$ 0
Accounts receivable	21,684
Inventory	<u>19,560</u>
Total Current Assets	41,244
Noncurrent Assets	
Machinery & equipment	99,957
Accumulated depreciation	<u>(79,674)</u>
Total Noncurrent Assets	20,283
 TOTAL ASSETS	 \$ <u><u>61,527</u></u>
 LIABILITIES:	
Current Liabilities:	
Cash overdraft	\$ 4,768
Accounts payable	<u>18,294</u>
Total Current Liabilities	<u>23,062</u>
 TOTAL LIABILITIES	 <u>23,062</u>
 NET ASSETS:	
Invested in Capital Assets, net of Related Debt	20,283
Unrestricted	<u>18,182</u>
 TOTAL NET ASSETS	 <u>38,465</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>61,527</u></u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>FOOD SERVICE FUND</u>
OPERATING REVENUES:	
Lunchroom sales	\$ 57,051
TOTAL OPERATING REVENUES	<u>57,051</u>
OPERATING EXPENSES:	
Salaries and wages	133,891
Contract services	1,518
Materials and supplies	143,381
Depreciation	<u>3,167</u>
TOTAL OPERATING EXPENSES	<u>281,957</u>
Operating Income (Loss)	(224,906)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	175,802
Federal commodities	13,160
State grants	22,225
Interest income	39
NON-OPERATING REVENUES (EXPENSES)	<u>211,226</u>
Change in Net Assets	(13,680)
Net Assets - beginning	<u>52,145</u>
Total net assets - ending	<u><u>\$ 38,465</u></u>

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>FOOD SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 57,051
Cash paid to suppliers	(117,344)
Cash paid to employees	<u>(113,459)</u>
Net Cash Provided (Used) by Operating Activities	(173,752)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Governmental grants	177,595
Amounts paid to other funds	<u>(3,843)</u>
Net Cash Provided (Used) by Financing Activities	173,752
Net Increase (Decrease) in Cash and Cash Equivalents	0
Cash and cash equivalents - beginning	<u>0</u>
Cash and cash equivalents - ending	<u><u>\$ 0</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (224,906)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation	3,167
Donated commodities	13,160
On-behalf payments	20,432
Changes in Assets and Liabilities:	
Inventories	(780)
Accounts payable	<u>2,860</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (186,067)</u></u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 13,160
On-behalf payments	\$ 20,432

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012**

	<u>ACTIVITY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 45,754
Accounts Receivable	<u>1,963</u>
TOTAL ASSETS	<u><u>\$ 47,717</u></u>
LIABILITIES:	
Accounts payable	\$ 4,521
Due to student groups	<u>43,196</u>
TOTAL LIABILITIES	<u><u>\$ 47,717</u></u>

See Auditor's Report and Accompanying Notes

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – REPORTING ENTITY

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

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

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

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

Blended Component Unit

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

BASIS OF PRESENTATION

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

The District has the following funds:

I. Governmental Fund Types

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

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

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

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

II. Proprietary Fund Types (Enterprise Fund)

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

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.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

III. Fiduciary Fund Type (Agency)

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

BASIS OF ACCOUNTING

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

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

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

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

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

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventory

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

Property Taxes

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

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

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$.421 per \$100 valuation for real property, \$.421 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles.

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

Prepaid Assets

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

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, 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 assets and in the respective funds.

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

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Bond Issue Costs

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

Deferred Revenue

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

Accrued Liabilities and Long-Term Obligations

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Fund Balances

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

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

Net Assets

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

Operating Revenues and Expenses

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

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

Contributions of Capital

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

Estimates

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

NOTE 3 - CASH AND CASH EQUIVALENTS

Custodial credit risk for deposits is the risk that in the event of bank failure the District's deposits may not be returned to it. The District's cash deposits are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by the pledging banks' trust departments in the District's name. At year end, the carrying amount of the District's cash and cash equivalents was a deficit of (\$246,591). The bank balance for the same time was a balance of \$115,014.

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

NOTE 4 - CAPITAL ASSETS

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

Governmental Activities:

Instruction	\$125,032
Support Services:	
Student	2,276
Instructional staff	446
District administration	5,428
School administration	3,134
Plant operations & maintenance	6,715
Student transportation	31,351
Community Services	302
Total depreciation expense, governmental activities	<u>\$174,684</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS (cont'd)

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$579,118	\$0	\$0	\$579,118
Total capital assets not being depreciated	579,118	0	0	579,118
Other capital assets				
Land Improvements	137,395	42,818	0	180,213
Buildings & Improvements	3,382,253	0	0	3,382,253
Technological Equipment	555,111	66,425	(27,133)	594,403
Vehicles	422,812	0	0	422,812
General Equipment	176,700	3,057	0	179,757
Total other assets	4,674,271	112,300	(27,133)	4,759,438
Less accumulated depreciation for:				
Land Improvements	(55,558)	(5,661)	0	(61,219)
Buildings & Improvements	(1,647,431)	(94,058)	0	(1,741,489)
Technological Equipment	(453,238)	(34,141)	27,133	(460,246)
Vehicles	(194,803)	(31,671)	0	(226,474)
General Equipment	(147,515)	(9,153)	0	(156,668)
Total accumulated depreciation	(2,498,545)	(174,684)	27,133	(2,646,096)
Other capital assets, net	2,175,726	(62,384)	0	2,113,342
Governmental Activities, net	\$2,754,844	(\$62,384)	0	\$2,692,460
	Beginning Balance	Additions	Disposals	Ending Balance
Business Activities:				
Technological Equipment	\$11,280	\$0	\$0	\$11,280
General Equipment	88,677	0	0	88,677
Total	99,957	0	0	99,957
Less accumulated depreciation for:				
Technological Equipment	(11,280)	0	0	(11,280)
General Equipment	(65,227)	(3,167)	0	(68,394)
Total accumulated depreciation	(76,507)	(3,167)	0	(79,674)
Business Activities, net	\$23,450	(\$3,167)	0	\$20,283

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS

Bonds

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

In connection with the school revenue bonds issued after May 1, 1996, the District entered into "Participation agreements" with the Kentucky School Facilities Construction Commission the (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>	<u>Maturity Dates</u>	<u>Outstanding Balance June 30, 2012</u>
2001 – QZAB	\$95,747	Not Applicable	6/5/2015	\$18,137
2002	195,000	4.00-5.00%	5/1/2021	145,000
2002B	120,000	3.50-4.90%	6/1/2018	60,000
2004	925,000	3.00-3.63%	7/1/2015	375,000
2007	785,000	3.00-3.63%	8/1/2025	705,000
2009R	35,760	1.00-2.00%	12/1/2012	10,843
2010	375,000	3.850%	1/1/2030	345,000
	<u>\$2,656,507</u>			<u>\$1,658,980</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (cont'd)

The bond may be called prior to maturity dates at redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the District, including amount to be paid by the Commission at June 30, 2012, for debt service, (principal and interest), are shown below:

YEAR	Jackson Independent School District		Kentucky School Construction Commission		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013	\$120,961	\$45,326	\$30,064	\$17,080	\$213,431
2014	109,570	41,344	30,612	15,941	197,466
2015	113,989	37,232	31,193	14,767	197,181
2016	120,791	32,836	31,800	13,568	198,995
2017	76,295	29,198	23,705	12,508	141,706
2018-22	394,461	96,668	125,539	48,281	684,949
2023-27	270,000	22,317	105,000	26,950	424,267
2028-30	0	0	75,000	5,776	80,776
	<u>\$1,206,067</u>	<u>\$304,921</u>	<u>\$452,913</u>	<u>\$154,869</u>	<u>\$2,118,770</u>

Advance Refunding

On December 1, 2009, the District issued \$35,760 of general obligation refunding bonds, Series 2009R, with an average interest rate of 1.5%. The bonds consist of serial bonds bearing various fixed rates ranging from 1.0% to 2.0% with annual maturities from June 2010 through December 2012.

The net proceeds of \$35,173 (after issuance costs of \$229 plus discount of \$358) were used to advance refund various series of bonds with a total outstanding principal amount of \$32,000 and an average interest rate of 4.9125%.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities.

The advance refunding was done in order to reduce debt payments in the short-term. The refunding decreased the District's total debt service payments by \$1,596. The transaction resulted in an economic loss (difference between the present value of the debt service on the old and the new bonds) of \$3,760.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (cont'd)

Capital Leases

The District has entered into lease agreements as lessee for financing the acquisition of capital assets. These leases qualify as capital leases for accounting purposes and therefore, have been reported at the present value of their future minimum lease payments as of the inception date. Following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the minimum lease payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2013	\$40,052
2014	29,568
2015	29,641
2016	22,815
2017	22,837
2018-2021	<u>83,428</u>
Total minimum lease payments	\$228,341
Less: Amount of interest	<u>(28,931)</u>
Present value of net minimum Lease Payments	<u><u>\$199,410</u></u>

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

<u>Class of Property</u>	<u>Amount</u>
Buses	\$422,812
Less: Accumulated Depreciation	<u>(234,482)</u>
	<u><u>\$188,330</u></u>

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds	\$1,805,356	\$0	\$146,376	\$1,658,980	\$151,025
Capital Leases	241,040	0	41,630	199,410	34,382
Sick Leave	88,742	0	5,985	82,757	31,340
Total	<u>\$2,135,138</u>	<u>\$0</u>	<u>\$182,021</u>	<u>\$1,941,147</u>	<u>\$216,747</u>

In prior years, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased debt is not included in these financial statements. Outstanding at June 30, 2012 are the following amounts of debt, which are considered defeased.

\$339,247 - School Building Revenue Bonds Series 1995
\$660,000 - School Building Revenue Bonds Series 2000

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide for the minimum future rental payments as of June 30, 2012 as follows:

Year Ending June 30,	Amount
2013	\$22,212
2014	18,551
2015	18,218
2016	11,702
	\$70,683

Rent expense for the year ended June 30, 2012 was \$22,212.

NOTE 7 – RETIREMENT PLANS

Kentucky Teacher's Retirement System

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

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

Funding policy - Contribution rates are established by KRS. Members who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 2008 contribute an additional 0.5%. 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.

The District's total payroll for the year was \$1,983,443. The payroll for employees covered under KTRS was \$1,691,210. For the years ended June 30, 2012, 2011 and 2010, the Commonwealth contributed \$222,367, \$221,845 and \$221,830, respectively for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2012, 2011 and 2010 were \$183,955, \$175,320 and \$166,914, respectively, which represented those employees covered by federal programs.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – RETIREMENT PLANS (cont'd)

County Employees' Retirement System

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

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

Plan members are required to contribute either 5% or 6% of their annual covered compensation and the District is required to contribute at an actuarially determined rate. The current rate is 18.96% of the employee's total compensation. The contribution requirement for CERS for the years ended June 30, 2012, 2011 and 2010 were \$149,066 (which consisted of \$117,579 from the District and \$30,981 from the employees), \$135,745 and \$130,306.

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

Other Retirement Plans

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. Employee contributions made to these plans during the year totaled \$20,921. The District does not contribute to these plans.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements. Employee contributions made to this plan during the year totaled \$30,500. The District does not contribute to this plan.

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – RETIREMENT PLANS (cont'd)

Medical Insurance Plan

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

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

Funding policy – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help with the medical expenses of the plan.

NOTE 8 – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. At June 30, 2012, this amount totaled \$82,757. The District follows a policy of funding up to one-half of the total amount accrued as a reservation of the General Fund balance.

NOTE 9 - INSURANCE AND RELATED ACTIVITIES

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 - CONTINGENCIES

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

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

NOTE 11 - RISK MANAGEMENT

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

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

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE – 12 – DEFICIT OPERATING FUND BALANCES

The General Fund was operating at a deficit fund balance of (\$55,266) at June 30, 2012. During the year, the General Fund and the Food Service Fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a reduction of fund balance of \$137,800 and \$13,680, respectively.

NOTE 13 - COBRA

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

NOTE 14 – INTERFUND TRANSACTIONS

At June 30, 2012, the interfund status of payables and receivables (all current) of the various funds of the district are in the following table. All balances are expected to be settled within the next fiscal year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$126,754

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>
Matching	General	Special Revenue	Tech. Match	\$9,304

NOTE 15 - ON-BEHALF PAYMENTS

The Commonwealth of Kentucky contributes funds on-behalf of the District for medical insurance and related expenses, pension contributions and vocational education. The School Facilities Construction Commission contributes funds for the retirement of bonds and payment of interest on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts as reported on the statement of activities and in the actual column on the budgetary comparison schedule. However, these amounts were not budgeted by the District. As a result, the actual expenditures for the General fund exceeded budgeted amounts, as presented on page 14. Contributions made on-behalf of the District for the year ended June 30, 2012 were:

Insurance and related expenses	\$414,875
Vocational Education	3,624
Pension contributions	222,367
Technology	42,027
Bond retirement and interest	47,735
Total on-behalf payments	<u>\$730,628</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 – LITIGATION

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

NOTE 17 – RELATED PARTY TRANSACTIONS

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

NOTE 18 – SUBSEQUENT PERIOD

On October 24, 2012, the Board obtained a \$300,000 line of credit with Citizens Bank & Trust Co. of Jackson and drew \$200,000 on the line to cover the deficit of the District. The Note carries a variable interest rate currently at 5.75%. The note matures June 28, 2013, but is expected to be renewed.

NOTE 19 – ACCUMULATED DEFICIT AND MANAGEMENT PLANS

In fiscal year 2012, the District experienced a total decrease of \$137,800 in the General Fund balance. This decrease resulted in an accumulated deficit in the General Fund at June 30, 2012 of (\$55,266) and a negative cash balance of (\$264,767). As of that date, the District's fund liabilities exceeded its assets by \$32,332. The General Fund also reports an advance due from the Special Revenue Fund of \$126,754. Those factors, as well as the District's limited number of students and tax base, create an uncertainty about the District's ability to continue operations and continue as a going concern. The financial statements do not include any adjustments that might be necessary if the District is unable to continue.

The District's Board and management have assessed the current deficit situation and have approved a plan of temporary cash flow financing while also reviewing the current operating budget. The Board approved and obtained an operating line of credit of \$300,000, (See Note 18). The Bank has confirmed that the line of credit will be renewed as needed through December 31, 2013. Management and the Board will review the operating budget and seek areas to reduce costs while maintaining a quality education. They will also aggressively pursue new grant funding and local community support. The Board and management believe these actions will reduce the current deficit and establish an adequate cash reserve in fiscal year 2013 and future years.

JACKSON INDEPENDENT SCHOOL DISTRICT
SUPPLEMENTAL INFORMATION

**JACKSON INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:			
Cash and cash equivalents	\$ 0	\$ 932	\$ 932
TOTAL ASSETS	\$ 0	\$ 932	\$ 932
LIABILITIES:			
Accounts payable	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	0	0	0
FUND BALANCES:			
Restricted	0	932	932
TOTAL FUND BALANCES	0	932	932
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	\$ 932	\$ 932

**JACKSON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:			
From local sources:			
Taxes:			
Property	\$ 0	\$ 18,989	\$ 18,989
Intergovernmental - State	<u>37,076</u>	<u>158,255</u>	<u>195,331</u>
TOTAL REVENUES	<u>37,076</u>	<u>177,244</u>	<u>214,320</u>
EXPENDITURES:			
Facilities acquisition and construction	0	1,598	1,598
Debt service	<u>37,076</u>	<u>175,646</u>	<u>212,722</u>
TOTAL EXPENDITURES	<u>37,076</u>	<u>177,244</u>	<u>214,320</u>
Excess (Deficit) of Revenues over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>0</u>	<u>0</u>	<u>0</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	0	0	0
Fund balance - beginning	<u>0</u>	<u>932</u>	<u>932</u>
Fund balance - ending	<u>\$ 0</u>	<u>\$ 932</u>	<u>\$ 932</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

ACCOUNTS:	Cash			Cash		Accounts	Accounts	Fund
	Balances	Receipts	Disbursements	Balances	Receivable	Payable	Balances	
	July 1, 2011			June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012	
MS Baseball	\$ 50	\$ 0	\$ 0	\$ 50	\$ 0	\$ 0	\$ 50	
SN Club	0	100	0	100	0	0	100	
Fifth Grade	141	0	0	141	0	0	141	
General	2,028	13,169	14,391	806	0	455	351	
Principal	1	0	0	1	0	0	1	
MS Science Fund	649	60	0	709	0	0	709	
Athletic	3,281	24,309	26,781	809	0	0	809	
Teachers Fund	1,728	4,003	4,887	844	0	0	844	
Math	66	40	0	106	0	0	106	
High School Y Club	1,010	3,677	3,135	1,552	0	0	1,552	
KUNA	152	0	152	0	0	0	0	
Children Inc	1,769	1,604	2,567	806	0	100	706	
Elementary Academics	1	3,669	3,650	20	823	0	843	
MS Boys Basketball	2,814	963	3,662	115	0	0	115	
HS Boys Basketball	2	378	373	7	0	0	7	
Academics	172	100	65	207	0	65	142	
STLP	12	0	0	12	0	0	12	
HS Softball	146	0	146	0	0	0	0	
TV Media	546	270	612	204	0	0	204	
Drama Class	15	0	0	15	0	0	15	
Annual	8,650	11,004	16,438	3,216	0	0	3,216	
Band	23	3,594	3,577	40	0	0	40	
Library	711	4,417	4,914	214	0	0	214	
Freshman Class	2,602	1,540	2,672	1,470	0	0	1,470	
Sophomore Class	2,369	5,493	2,429	5,433	0	0	5,433	
Junior Class	2,161	8,464	10,580	45	0	0	45	
Senior Class	0	2,161	2,036	125	0	0	125	
Eighth Grade	0	171	171	0	0	0	0	
Seventh Grade	46	93	0	139	0	0	139	
G.S. Cheerleaders	804	2,069	2,873	0	0	0	0	
HS Cheerleaders	85	0	0	85	0	85	0	
GS Boys Basketball	1,424	671	856	1,239	0	0	1,239	
HS Girls Basketball	1,604	3,939	3,396	2,147	0	0	2,147	
Project Prom	760	2,820	2,607	973	0	0	973	
FRYSC	1,760	4,580	3,127	3,213	0	0	3,213	
Eighth Grade Graduation	1,788	6,855	4,563	4,080	0	2,187	1,893	
Humanities	140	434	336	238	0	0	238	
Arts & Humanities	328	60	0	388	0	0	388	
JISD Flower	1,593	685	777	1,501	0	48	1,453	
GS Girls Basketball	130	302	0	432	0	0	432	
MS Girls Basketball	2,103	1,147	2,175	1,075	0	0	1,075	
The 21st Century CCLC	4,332	4,625	6,781	2,176	0	87	2,089	
Senior Trip 2009	290	0	0	290	0	0	290	
Junior Sr Trip 2011	973	0	247	726	0	0	726	
Volleyball	0	1,677	1,469	208	0	0	208	
Junior Trip 2013	40	336	0	376	0	0	376	
Senior Trip 2013	1,471	3,967	0	5,438	0	0	5,438	
Bumblebee Marketing	0	15,454	15,454	0	0	0	0	
Bumblebee Kindergarten	42	573	551	64	0	0	64	
Bumblebee K-1	508	1,607	2,054	61	0	0	61	
Bumblebee 1A	840	300	861	279	0	217	62	
Bumblebee 1B	96	0	0	96	0	0	96	
Bumblebee 2nd	170	358	484	44	0	12	32	
Bumblebee 2B	21	170	66	125	0	125	0	
Bumblebee 3rd	757	395	1,149	3	0	0	3	
Bumblebee 3B	91	0	0	91	0	0	91	
Bumblebee 4A	480	306	507	279	0	0	279	
Bumblebee 4B	66	0	0	66	0	0	66	
Bumblebee 5A	135	100	133	102	0	0	102	
Bumblebee 5B	116	1,760	1,771	105	0	0	105	
Bumblebee 6A	157	0	157	0	0	0	0	
Bumblebee 6B	146	215	50	311	0	0	311	
Bumblebee 7A	492	58	464	86	0	0	86	
Bumblebee 7B	148	30	0	178	0	0	178	
Track	260	1,155	1,252	163	0	0	163	
Golf Club	0	100	0	100	0	0	100	
HS Baseball	8	0	0	8	0	0	8	
Art Fund	1	0	0	1	0	0	1	
Soccer Club	625	3,198	2,469	1,354	1,140	1,140	1,354	
Political Science Club	381	26,479	26,631	229	0	0	229	
Chess Club	292	605	659	238	0	0	238	
TOTALS	\$ 56,602	\$ 176,309	\$ 187,157	\$ 45,754	\$ 1,963	\$ 4,521	\$ 43,196	

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity's Number	Federal Expenditures
U.S. DEPT. OF AGRICULTURE			
Passed Through State Dept. of Education:			
<i>Child Nutrition Cluster:</i>			
National School Lunch Program	10.555	7750002 11	\$ 25,724
National School Lunch Program	10.555	7750002 12	72,919
Summer Food Service Program for Children	10.559	7690024-11	2,321
Summer Food Service Program for Children	10.559	7740023-11	22,458
Summer Food Service Program for Children	10.559	7740023-12	21,684
School Breakfast Program	10.553	7760005 11	8,366
School Breakfast Program	10.553	7760005 12	22,330
<i>Total Child Nutrition Cluster:</i>			<u>175,802</u>
Passed Through State Dept. of Agriculture:			
Food Donation	10.555	51	13,160
TOTAL U.S. DEPT. OF AGRICULTURE			<u>188,962</u>
U.S. DEPT. OF EDUCATION			
Passed Through State Dept. of Education:			
<i>Special Education (IDEA) Cluster:</i>			
Special Education Grants to States (IDEA, PART B)	84.027	3810002-11	82,683
Special Education Preschool Grants (IDEA Preschool)	84.173	3800002-11	4,442
<i>Total Special Education (IDEA) Cluster:</i>			<u>87,125</u>
Title I Grants to Local Education Agencies	84.010	3100002-11	74,569
Improving Teacher Quality State Grants	84.367	3230002-11	21,262
21ST Century Community Learning Centers	84.287	3400002-10	46,332
21ST Century Community Learning Centers	84.287	3400002-11	76,942
Total 21st Century Community Learning Center			<u>123,274</u>
Rural Education	84.293	4101A	22,504
GEAR UP	84.334	6971	83,602
Education Jobs Grant	84.410	EJOB00	1,632
LEAP Grant	84.215	8662K	1,225
TOTAL U.S. DEPT. OF EDUCATION			<u>415,193</u>
APPALACHIAN REGIONAL COMMISSION			
Appalachian Research, Technical Assist. & Demo. Project	23.011	6882	1,674
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Learn and Serve America	94.004	1000002-11	4,086
Learn and Serve America	94.004	1000002-12	1,150
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>5,236</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 611,065</u>

**JACKSON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

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

NOTE 2 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2012, the District received food commodities totaling \$13,160.

SUMMERS, MCCRARY & SPARKS, P.S.C.
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1961-1992

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

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

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Jackson Independent School District (District) as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 15, 2012. 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-Profits 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*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of the Jackson Independent School District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Jackson Independent School District's internal control over financial reporting 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 Jackson Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2012-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed an instance of material noncompliance of specific state statutes or regulations identified in *Appendices II – State Audit Requirements, of the Independent Auditor's Contract*, which is described in the schedule of findings and questioned costs as item 2012-02.

We noted certain matters that we reported to management of the District in a separate letter dated November 15, 2012.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Jackson Independent Board of Education, the Kentucky Department of Education, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
November 15, 2012

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the Jackson Independent School District (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, Appendix III to 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 and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

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

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

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Jackson Independent Board of Education, the Kentucky Department of Education, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
November 15, 2012

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued – unqualified

Internal control over financial reporting:

\$ Material weakness(es) identified? X yes no
 \$ Significant deficiencies identified that are not considered to be material weakness? yes X none reported
 Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over majority programs:

\$ Material weakness(es) identified? yes X no
 \$ Significant deficiencies identified that are not considered to be material weakness(es)? yes X none reported

Type of auditor's report issued on compliance for the major programs unqualified:

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
10.555,10.553,10.559 84.287	National School Lunch Program 21 st Century Community Learning

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

Auditee qualified as low-risk auditee? yes X no

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section II – Financial Statement Findings

Item 2012-01

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

Criteria: The financial statements must be prepared in accordance with GAAP.

Cause: The District's personnel lack the expertise specific to preparing the financial statements in accordance with GAAP and the available budget to outsource for such services.

Effect: The financial statements were not maintained in accordance with GAAP.

Questioned Costs: Not Applicable

Recommendation: The District should consider contracting with another CPA firm to assist them with the financial statements preparation.

Management's Response: As a small school district with considerable budget restraints, it would not be financially feasible to employ another CPA firm. We will continue to pursue a feasible method to meet the guidelines.

Item 2012-02

Condition: The District, ended the year with a negative general fund balance, and as such, did not maintain the 2% minimum reserve.

Criteria: According to KRS 160.550, no District shall approve expenditures of funds in excess of income and revenues for the year.

Cause: Steady decline in fund balance each year due to low number of students and lack of funding.

Effect: Violation of state statute.

Questioned Costs: Not Applicable

Recommendation: District personnel should evaluate their budget extensively and work with KDE to develop a plan to improve the financial stability of the District.

Management's Response: At year end processing District personnel contacted KDE regarding the general fund not meeting the required 2% contingency. KDE Finance Support Personnel contacted the District's Finance Officer to develop a plan to improve the financial stability of the District. Upon KDE staff's review of the FY12 AFR and audit further contact will be ongoing. District personnel are evaluating the FY13 Working Budget and amending as needed.

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section III – Federal Award Findings and Questioned Costs

There were none in the current year.

**JACKSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES
For the Year Ended June 30, 2012**

SECTION I - FINDINGS - FINANCIAL STATEMENT FINDINGS

2011-01. Condition: The District lacks proper internal control over financing reporting of their year end financial statements to be issued in accordance with generally accepted accounting principles.

Status: The condition was repeated in the current year.

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

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

In planning and performing our audit of the financial statements of Jackson Independent School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 15, 2012 on the financial statements of the Jackson Independent School District.

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

Respectfully,

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
November 15, 2012

**JACKSON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

BOARD

Condition: During our testing of cash disbursements, we noted multiple purchases made prior to the approval of the purchase order. We recommend all purchase orders be prepared and approved prior to making the purchase.

Response: Effective November 1, 2012, every effort will be made to relay to the faculty and staff the importance of prior approval for all purchases and travel reimbursements. The central office staff has discussed proper purchasing procedures to prevent future occurrences.

Condition: During our test of payroll, we noted salary expense exceeded budgeted amounts. Expenses should be monitored throughout the year and if necessary, the Board should approve budget amendments.

Response: The central office staff will monitor the working budget as needed throughout the school year to prevent exceeded line item budget expenses. Then the Superintendent, Mr. Spencer will present budget amendments to the Board of Education at their monthly meeting.

Condition: During our review of federal expenditures, we noted the District did not meet the Maintenance of Fiscal Effort Excess Cost Requirement and Non-Supplanting requirements (MOE). We recommend the District review its budgeting process and make necessary adjustments to meet the requirements.

Response: The District was aware of the issue with the Maintenance of Fiscal Effort Excess Cost Requirement and Non-Supplanting requirements (MoFE) upon completion of the annual report due to the additional funding of the American Recovery and Reinvestment Act (ARRA). The District has contacted the Kentucky Department of Education for guidance/resolution in this matter. We are awaiting a response from the federal level regarding necessary adjustments.

ACTIVITY FUNDS

Condition: During our review of cash disbursements, we found multiple instances of the Vendor's Address not being completed on the Standard Invoice (Form F-SA-8), and one instance of the cost not being included on the Standard Invoice. The Bookkeeper should review the Standard Invoice Form (F-SA-8) of the "Redbook", to ensure they are familiar with all items that need to be reported on the form.

Response: Effective immediately, the school bookkeeper will review the Standard Invoice Form (F-SA-8) of the "Redbook" to ensure that all items that need to be reported on the Standard Invoice form is included and reported on future transactions.

**JACKSON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT POINTS
JUNE 30, 2012**

STATUS OF PRIOR YEAR COMMENTS

Board

- Previously, we noted student workers' compensation was not processed through the payroll system. Student compensation was processed through the payroll system during the year.

Activity Funds

- Previously, we noted two instances where the purchase order was dated after the purchase was made. We recommended the Bookkeeper review the "Purchasing" procedures section, item no. 1, of the "Redbook", which states, to initiate a purchase, a Purchase Order (Form F-SA-7) shall be prepared and approved by the sponsor and principal before the payment is obligated. No similar finding occurred in the current year.