



Year Ended
June 30, 2014

Financial
Statements and
Single Audit Act
Compliance

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

November 3, 2014

Board of Education
Jackson County Intermediate School District
Jackson, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jackson County Intermediate School District as of June 30, 2014, and the respective changes in financial position and the budgetary comparison for the general fund, special education fund and the career technical education fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Loborn LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

The Jackson County Intermediate School District (the "District"), is one of Michigan's 56 intermediate school Districts, created by the state legislature in 1962 to provide regional services to local schools. The District provides direct or indirect services to the approximately 24,000 students in Jackson County from all 12 public school Districts, two local charter schools and various parochial schools in the county. These include special education services, professional development and curriculum support for teachers and administrative staff throughout the county, career and technical education through the Jackson Area Career Center, technology services, pupil accounting and other student information services, assistance with grant writing, business functions, and many more.

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. The management's discussion and analysis is provided at the beginning of the audit to provide an overview of the past and current position of the District's financial condition. This summary should not be taken as a replacement for the complete set of audited financial statements and other supplemental information that presents in greater detail the District's revenues and expenditures by program and fund.

Financial Highlights

Goals related to financial activities of the District for the 2013-14 fiscal year were generally met. While the fund balances of some funds went up and other funds went down over the past year, the District's management believes the overall condition of all funds and governmental activities of the District improved slightly during the year. During the prolonged economic downturn over the past several years the District has taken a conservative approach to staffing, looked for more opportunities to collaborate with other districts, and taken numerous other steps to streamline operations, increase efficiencies, and reduce costs in order to maintain programs and services. As a result, the financial health of the District remains stable and relatively strong. The District plans to continue taking this same conservative approach going forward to maintain its financial health while the Michigan economy and housing market appear to be in a period of sustained slow recovery.

The assets of the District exceeded liabilities by \$26,558,619 at the close of the most recent fiscal year. This represents a decrease in the total net position of the District of \$1,102,536 during the past fiscal year. Of the total net position, \$2,702,286 is unrestricted and may be used to meet the District's ongoing obligations to taxpayers, students and creditors. The unrestricted net position of the District decreased by \$195,498 during the past fiscal year.

At the close of the 2013-14 fiscal year, the District's governmental fund balances totaled \$14,923,855, a decrease of \$664,028 from the prior year. Of the \$14,923,855, \$825,901 is nonspendable in the form of inventories, prepaids or land held for resale, \$6,547,712 is restricted for use in particular programs (special education, career and technical education, training assistance), \$5,302,550 is restricted for capital projects or technology, \$129,000 is assigned for future technology consortium expenses, and \$2,091,692 is unassigned.

Using this Financial Report

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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. They provide a clear picture of the District as a single, unified entity, and complement rather than replace traditional fund-based financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

The statement of net position presents information on all of the District's assets and liabilities with the residual balance reported as net position. Net position should be understood as a measure of "net worth" rather than as a measure of expendable, available resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. This statement focuses on expenses (cost) for each of the District's functional activities (e.g., instruction, supporting services and depreciation, etc.). In the private sector, revenues are the first item in the operating statement reflecting the common business goal of maximizing revenues. In the public sector, the goal is to provide needed services cost-effectively so the first item in the statement of activities for local governments is expenses, not revenues. The cost of services need not be financed from the District's own resources, but may be offset by outside resources such as contributions, fees, and grants. The statement of activities is presented to highlight the portion of each functional activity that must be financed by the District's own resources. The statement first reports all direct costs associated with each functional activity, then reports dedicated outside revenues as a direct reduction, to arrive at the program's net cost to the District.

Governmental Activities. Most of the District's basic services are included here, such as learning services, special education, career and technical education, transportation, and administration. Property taxes and state aid finance most of these activities. Also, in the internal service funds, the District charges fees to help it cover the costs of certain services it provides. The District's adult education programs and technology related services are examples.

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. The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds as opposed to the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as local taxes or federal grants). The District has three kinds of funds:

Governmental Funds. Most of the District's basic services are included in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year (fund balance). Such information may be useful in evaluating a District's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four major operating governmental funds - the General Fund, the Special Education Fund, the Career and Technical Education Fund and the Recurring Projects Fund. Information for these is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The District adopts annual appropriated budgets for the general fund and major special revenue funds. A budgetary comparison statement has been provided for the General Fund and major special revenue funds to demonstrate compliance with their budgets.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

Proprietary Funds. In the internal service funds, the District charges fees to help it cover the costs of certain technology services it provides.

Fiduciary Funds. The District is the trustee, or fiduciary, for assets that belong to others such as student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

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.

Other Information. Other information consists of combining fund financial statements as well as single audit act compliance information.

The District's audit firm has provided assurance in its independent auditors' report, located immediately preceding this management's discussion and analysis, that the basic financial statements are fairly stated. The other information identified above has varying degrees of assurance as provided by the audit firm. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in these sections.

Government-wide Financial Analysis

The District's net position was \$26,558,619 at June 30, 2014. Of this amount, \$2,702,286 was unrestricted. Restricted net position is reported separately to show legal constraints that limit the District's ability to use that net position for day-to-day operations.

	Net Position	
	Governmental Activities	
	2014	2013
Current and other assets	\$22,437,036	\$23,228,718
Capital assets, net	12,460,396	12,676,386
Total assets	34,897,432	35,905,104
Current and other liabilities	7,337,221	7,242,674
Long-term debt	1,001,592	1,001,275
Total liabilities	8,338,813	8,243,949
Net position:		
Net investment in capital assets	11,630,396	11,811,386
Restricted	12,225,937	12,951,985
Unrestricted	2,702,286	2,897,784
Total net position	\$26,558,619	\$27,661,155

The results of this year's operations for the District as a whole are reported in the statement of activities. The following table takes the information from that statement and rearranges them slightly to show the change in net position for the year which was a decrease of \$1,102,536. In the following table the reader can also easily see the District's total revenues for the year by major source as well as the total expenditures for the year by major function.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2014	2013
Program revenues:		
Charges for services	\$ 252,960	\$ 320,896
Operating grants	15,390,389	15,701,287
General revenues:		
Property taxes	37,236,853	36,410,599
Unrestricted state aid	10,333,399	9,535,336
Other general revenue	4,544,316	4,973,155
Total revenues	<u>67,757,917</u>	<u>66,941,273</u>
Expenses:		
Instruction	16,311,985	15,721,696
Supporting services	36,082,372	33,086,514
Payments to other governments	15,211,370	12,561,839
Interest on long-term debt	44,463	55,488
Unallocated depreciation	1,210,263	1,179,263
Total expenses	<u>68,860,453</u>	<u>62,604,800</u>
Change in net position	(1,102,536)	4,336,473
Net position:		
Beginning of year	27,661,155	23,324,682
End of year	<u>\$26,558,619</u>	<u>\$27,661,155</u>

The commitment of the Board of Education and the District's management is to provide effective programs for all students in Jackson County in the most cost efficient manner possible. The District's expenses are predominantly related to instructing (24%), providing services for pupils (52%) and direct payments to local school districts (22%). Instructional costs relate specifically to providing career and technical education to students of local school districts and to providing special education instruction to other students of local districts. The higher support services ratio would be consistent with the purpose of intermediate school districts, which is to provide support programs to local districts in order to more efficiently and effectively educate students in the County.

Analysis of the District's Budget and Operating Results

As previously mentioned, the District has four main operating funds - the General Fund, the Special Education Fund, the Career and Technical Education Fund and the Recurring Projects Fund. The budgets for these funds are prepared according to Michigan law.

During the fiscal year ended June 30, 2014, the District amended the budgets of the General, Special Education and Career and Technical Education Funds two times to reflect changes to both revenues and expenditures from the assumptions that were made when the budget was originally developed. A brief review of each fund's performance is provided below.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

General Fund. As summarized below, during the 2014 fiscal year the General Fund had total revenues and transfers in of \$14,148,870 and total expenditures and transfers out of \$14,086,850. As a result the fund balance at year-end increased by \$62,020 to a total of \$2,697,918.

Summary of General Fund Performance			
for the Year Ended June 30, 2014			
	Original Budget	Final Budget	Actual Results
Total revenues and transfers in	\$14,904,483	\$15,613,825	\$14,148,870
Total expenditures	<u>(15,518,483)</u>	<u>(16,037,482)</u>	<u>(14,086,850)</u>
Net change in fund balance	(614,000)	(423,657)	62,020
Fund balance -			
Beginning of year	<u>2,635,898</u>	<u>2,635,898</u>	<u>2,635,898</u>
End of year	<u>\$ 2,021,898</u>	<u>\$ 2,212,241</u>	<u>\$ 2,697,918</u>

The General Fund actual revenues and transfers in were lower than the original budget and lower than the final amended budget. The General Fund actual expenditures and transfers out were lower than both the original and amended budget. These differences were due primarily to the timing of grant related revenue and the expenses associated with fulfilling those grants. Apart from the grant related revenues and expenditures, adjustments were made to ensure that actual expenditures of the General Fund were in line with the revenue. The net result was a small surplus was realized in the General Fund for the year as opposed to the deficit that had originally been budgeted. Therefore the fund balance at the end of the year for the General Fund was up instead of down reflecting a healthier General Fund than had originally been projected. The resultant fund balance is within the Board established target range for the General Fund instead of being slightly below the target range as had been budgeted.

Special Education Fund. As summarized below, during the 2014 fiscal year the Special Education Fund had total revenues and transfers in of \$44,838,220 and total expenditures and transfers out of \$45,705,878. As a result the fund balance at year-end decreased by \$867,658 to a total of \$2,346,954.

Summary of Special Ed Fund Performance			
for the Year Ended June 30, 2014			
	Original Budget	Final Budget	Actual Results
Total revenues and transfers in	\$43,676,567	\$45,380,490	\$44,838,220
Total expenditures and transfers out	<u>(44,467,567)</u>	<u>(46,026,665)</u>	<u>(45,705,878)</u>
Net change in fund balance	(791,000)	(646,175)	(867,658)
Fund balance -			
Beginning of year	<u>3,214,612</u>	<u>3,214,612</u>	<u>3,214,612</u>
End of year	<u>\$ 2,423,612</u>	<u>\$ 2,568,437</u>	<u>\$ 2,346,954</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

Both the revenues and the expenditures of the Special Education Fund came in close to the amounts originally budgeted and expected throughout the year. The original budget for 2013-14 projected a deficit for the year, and the actual result was a deficit just slightly higher than originally projected. The biggest changes from the original budget were slightly higher property tax revenue than expected, and most of this was shared with the local school districts in the county through the ISD's Special Education reimbursement payments to the local districts. The District's small portion of the incremental revenue allowed the District to further invest in the educational programming for our special needs students. The final results for the year were very close to budget and the resulting fund balance is in the middle of the Board established target range for the Special Education Fund.

Career and Technical Education Fund. As summarized below, during the 2014 fiscal year the Career and Technical Education Fund had total revenues of \$11,520,732 and total expenditures of \$10,952,824. As a result the fund balance at year-end increased by \$567,908 to a total of \$3,919,232.

Summary of Career and Technical Education Fund Performance			
for the Year Ended June 30, 2014			
	Original Budget	Final Budget	Actual Results
Total revenues	\$10,716,819	\$11,477,262	\$11,520,732
Total expenditures and transfers out	<u>(11,333,819)</u>	<u>(11,551,223)</u>	<u>(10,952,824)</u>
Net change in fund balance	(617,000)	(73,961)	567,908
Fund balance -			
Beginning of year	<u>3,351,324</u>	<u>3,351,324</u>	<u>3,351,324</u>
End of year	<u>\$ 2,734,324</u>	<u>\$ 3,277,363</u>	<u>\$ 3,919,232</u>

The actual revenue for the Career and Technical Education Fund was slightly higher than both the original budget and the final amended budget. The actual expenditures and transfers out of the Career and Technical Education Fund came in lower than both the original and the final amended budget resulting in the increase in fund balance for the year.

Recurring Projects Fund. During the 2014 fiscal year the Recurring Projects Fund had total revenues of \$250 and total expenditures of \$475,860. As a result the fund balance at year-end decreased by \$475,610 to a total of \$5,087,059. Of the total fund balance \$5,060,059 is restricted for capital projects.

Capital Asset and Debt Administration

Capital Assets. At the end of the 2013-14 fiscal year, the District had \$31,430,593 invested in land, buildings, furniture and equipment and transportation equipment, an increase of \$375,725 from the previous year. This small increase was due to miscellaneous land and building improvements and some additions of furniture and equipment. During 2013-14 there was additional depreciation of \$1,210,263 resulting in total accumulated depreciation as of June 30, 2014, of \$18,970,197. This yields a net book value of the District's capital assets of \$12,460,396 at June 30, 2014, a reduction of \$215,990 from the previous year.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

Since most of the District's facilities were originally built 30-40 years ago, they require a certain level of continued investment to keep them well maintained. The District's capital asset plan and facilities maintenance staff have protected the District's assets from deterioration with the constant and vigilant care required to maintain its capital asset investment at the levels of quality the District has enjoyed in the past. In order to ensure this continues into the future, the District will utilize its recurring projects fund to provide the necessary dollars for facility projects that would otherwise not be possible relying only upon operating funds without taking on additional debt. Examples of such projects could include chillers, boilers, energy management systems, roofs, parking lots and other similar building updates.

Long-term Debt. The District has long-term debt obligations of \$830,000 outstanding. This is a relatively small amount compared to many school districts in Michigan. This bonded indebtedness is attributable to School Building and Site Bonds issued in August 2009 that were used to complete an addition to the District's Kit Young Center where special education students aged 18-26 are trained in community focused instruction. These bonds are due in annual installments of \$40,000 to \$75,000 through the year 2029.

Factors Bearing on the District's Future

The world of K-12 education in the state of Michigan has seen many changes in the past few years including the areas of funding reform, consolidation of services and addressing schools that are struggling financially and / or in attaining educational achievement. The District expects this pace of change to continue into the future and that provides a challenge in terms of the allocation of District resources, both human and financial resources. Some of the key areas of potential future evolution include, but are not limited to the following:

- **Support Services:** For many years the Jackson County ISD has viewed its primary purpose as servicing the local districts of Jackson County in whatever areas they need support. Over the years areas of service have expanded from the initial primary focus on instructional support to now include many areas of non-instructional support in such fields as technology, business and finance, student data reporting, legal and many more. Two areas where the role of intermediate school districts seem to be growing currently based on strong emphasis and directives from the state are early childhood programming and supporting priority and focus schools. Another subject that is currently being debated extensively in Lansing is the need to assist financially distressed school districts through some kind of early warning mechanism. While not finalized yet, there is draft legislation that would place additional responsibilities with intermediate school districts related to the identification of and providing assistance to financially distressed local school districts.
- **Local Property Tax Revenue:** After several years in a row of declining property values totaling over 10%, the total property value of Jackson County property increased slightly in the 2013 tax year which provided the basis for ISD funding in the 2013-14 fiscal year. A further increase of just over 1% occurred in the 2014 tax year which will provide funding for the 2014-15 fiscal year. Since local property taxes are the District's single largest revenue source, this positive trend provides a welcome stability to funding, especially for the Special Ed and Career and Technical Education funds. Hopefully this favorable trend will continue into the future to enable further investment in the K-12 education for all children in Jackson County.
- **Other Property Tax Issues:** The District continues to be impacted by the property tax refunds it is required to make as a result of Michigan Tax Tribunal (MTT) decisions reducing the value of both residential and commercial properties. The number and dollar value of these decisions has begun to decline since the value of many of the large commercial properties in the county has already been adjusted down, and as property values begin to rise again instead of continuing their decline there will be less of a reason for these cases. A very large case that was filed in 2013 by the second largest payer of property taxes in Jackson County was subsequently withdrawn so that potential exposure is gone, at least for the time being. With the vote of the Michigan taxpayers in August 2014 to phase out the Personal Property Tax (PPT) paid by businesses in the state, the District will be dependent upon the replacement mechanism established by the legislature to partially offset the loss of property tax revenue on the value of personal property. The District expects to lose some revenue in future years as the PPT is phased out, but anticipates that the majority of lost revenue will be replaced through the mechanism established by the legislature and approved by the voters.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Management's Discussion and Analysis

- **The Affordable Care Act:** The Affordable Care Act (ACA) has placed many new requirements on employers related to the provision of health care insurance. In order to ensure compliance with these requirements additional tracking, monitoring and reporting will be necessary. Additionally, the ACA impacts the use of part-time employees which has been a common practice within many school districts. Going forward the District, like many employers, may have to think differently about its use of part-time employees.
- **Labor Relations:** The labor contracts with two of the District's represented groups expire December 31, 2014. Negotiations with each of these groups will begin in October 2014. The contracts with the District's two other represented groups expire June 30, 2015 and December 31, 2015. Additionally, each year the District typically makes minor updates to its handbook covering the non-represented group of administration employees for the following fiscal year. These four represented groups plus the non-represented administration group cover all the regular full-time employees of the District. This is noted for the readers' information only and not to point out any expected issue or concern. The District has had a good working relationship in the past with all of its union partners and employees, and the District expects this to continue into the future.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Kevin Oxley, Superintendent, or Mr. Roger Auwers, Director of Finance and Operations, at (517) 768-5200.

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BASIC FINANCIAL STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 16,071,985
Investments	816,089
Receivables	4,696,061
Prepaid items and other assets	852,901
Capital assets not being depreciated	25,007
Capital assets being depreciated, net	<u>12,435,389</u>
Total assets	<u>34,897,432</u>
Liabilities	
Accounts payable and accrued liabilities	6,293,027
Unearned revenue	1,044,194
Long-term debt:	
Due within one year	74,318
Due in more than one year	<u>927,274</u>
Total liabilities	<u>8,338,813</u>
Net position	
Net investment in capital assets	11,630,396
Restricted for:	
Special education	2,346,954
Career technical education	3,919,232
Training assistance	630,201
Capital projects	5,329,550
Unrestricted	<u>2,702,286</u>
Total net position	<u>\$ 26,558,619</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 16,311,985	\$ -	\$ 10,952,630	\$ (5,359,355)
Supporting services	36,082,372	252,960	4,437,759	(31,391,653)
Payments to other governments	15,211,370	-	-	(15,211,370)
Interest on long-term debt	44,463	-	-	(44,463)
Unallocated depreciation	1,210,263	-	-	(1,210,263)
Total governmental activities	\$ 68,860,453	\$ 252,960	\$ 15,390,389	(53,217,104)
General revenues:				
Property taxes				37,236,853
Unrestricted state aid				10,333,399
Grants and contributions not restricted to specific programs				4,486,794
Unrestricted earnings on investment and deposits				57,522
Total general revenues				52,114,568
Change in net position				(1,102,536)
Net position, beginning of year				27,661,155
Net position, end of year				\$ 26,558,619

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Balance Sheet

Governmental Funds
June 30, 2014

	General	Special Education	Career Technical Education
Assets			
Cash and cash equivalents	\$ 4,576,127	\$ 5,040,767	\$ 5,530,729
Investments	-	5,579	810,510
Accounts receivable	7,288	-	-
Due from other governments	1,838,403	2,501,569	315,520
Due from other funds	11,204	1,000,000	-
Inventories	10,409	-	-
Prepaid items	466,817	13,991	1,091
Land held for resale	-	-	333,593
Total assets	\$ 6,910,248	\$ 8,561,906	\$ 6,991,443
Liabilities			
Accounts payable	\$ 371,844	\$ 328,620	\$ 93,200
Salaries payable	35,948	2,505,061	590,960
Due to other governments	402,119	-	-
Accrued liabilities	72,776	1,496,275	353,125
Due to other funds	2,183,585	1,884,996	2,031,505
Unearned revenue	1,040,933	-	3,261
Total liabilities	4,107,205	6,214,952	3,072,051
Deferred inflows of resources			
Unavailable accounts receivable	105,125	-	160
Fund balances			
Nonspendable:			
Inventories	10,409	-	-
Prepaid items	466,817	13,991	1,091
Land held for resale	-	-	333,593
Restricted for:			
Special education	-	2,332,963	-
Career technical education	-	-	3,584,548
Training assistance	-	-	-
Capital projects:			
Projects	-	-	-
Technology	-	-	-
Assigned - technical consortium	129,000	-	-
Unassigned	2,091,692	-	-
Total fund balances	2,697,918	2,346,954	3,919,232
Total liabilities, deferred inflows of resources and fund balances	\$ 6,910,248	\$ 8,561,906	\$ 6,991,443

The accompanying notes are an integral part of these financial statements.



Recurring Projects	Nonmajor Governmental Funds	Totals
\$ -	\$ 874,626	\$ 16,022,249
-	-	816,089
-	-	7,288
-	12,075	4,667,567
5,099,283	-	6,110,487
-	-	10,409
27,000	-	508,899
-	-	333,593
<u>\$ 5,126,283</u>	<u>\$ 886,701</u>	<u>\$ 28,476,581</u>
\$ 39,224	\$ 2,325	\$ 835,213
-	-	3,131,969
-	-	402,119
-	-	1,922,176
-	11,204	6,111,290
-	-	1,044,194
<u>39,224</u>	<u>13,529</u>	<u>13,446,961</u>
-	480	105,765
-	-	10,409
27,000	-	508,899
-	-	333,593
-	-	2,332,963
-	-	3,584,548
-	630,201	630,201
5,060,059	-	5,060,059
-	242,491	242,491
-	-	129,000
-	-	2,091,692
<u>5,087,059</u>	<u>872,692</u>	<u>14,923,855</u>
<u>\$ 5,126,283</u>	<u>\$ 886,701</u>	<u>\$ 28,476,581</u>

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2014

Fund balances - total governmental funds	\$ 14,923,855
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	25,007
Capital assets being depreciated, net	12,435,389
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred inflows in the governmental funds and not in fund balance.	
Unavailable accounts receivable	105,765
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.	
Net position of governmental activities accounted for in internal service funds	70,195
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable	(830,000)
Compensated absences	(171,592)
Net position of governmental activities	<u>\$ 26,558,619</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

	General	Special Education	Career Technical Education
Revenues			
Local sources	\$ 5,440,075	\$ 28,771,653	\$ 9,714,722
State sources	5,757,035	10,226,302	1,515,842
Federal sources	281,760	5,690,265	290,168
Total revenues	11,478,870	44,688,220	11,520,732
Expenditures			
Current:			
Instruction	-	10,280,656	6,031,329
Supporting services	10,643,236	22,369,132	3,394,510
Payments to other governmental entities or units	3,443,614	11,666,627	16,985
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
Capital outlay -			
Technology capital improvements	-	-	-
Total expenditures	14,086,850	44,316,415	9,442,824
Revenues over (under) expenditures	(2,607,980)	371,805	2,077,908
Other financing sources (uses)			
Transfers in	2,670,000	150,000	-
Transfers out	-	(1,389,463)	(1,510,000)
Total other financing sources (uses)	2,670,000	(1,239,463)	(1,510,000)
Net change in fund balances	62,020	(867,658)	567,908
Fund balances, beginning of year	2,635,898	3,214,612	3,351,324
Fund balances, end of year	\$ 2,697,918	\$ 2,346,954	\$ 3,919,232

The accompanying notes are an integral part of these financial statements.



Recurring Projects	Nonmajor Governmental Funds	Totals
\$ 250	\$ 106,702	\$ 44,033,402
-	45,493	17,544,672
-	-	6,262,193
<u>250</u>	<u>152,195</u>	<u>67,840,267</u>
-	-	16,311,985
475,860	46,042	36,928,780
-	-	15,127,226
-	35,000	35,000
-	44,463	44,463
-	56,841	56,841
<u>475,860</u>	<u>182,346</u>	<u>68,504,295</u>
<u>(475,610)</u>	<u>(30,151)</u>	<u>(664,028)</u>
-	79,463	2,899,463
-	-	(2,899,463)
-	79,463	-
(475,610)	49,312	(664,028)
<u>5,562,669</u>	<u>823,380</u>	<u>15,587,883</u>
<u>\$ 5,087,059</u>	<u>\$ 872,692</u>	<u>\$ 14,923,855</u>

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ (664,028)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	996,063
Depreciation expense	(1,210,263)
Loss on disposal of capital assets	(1,790)
The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.	
Change in deferred accounts receivables	(82,580)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Principal payments on long-term liabilities	35,000
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 the funds.	
Change in the accrual for compensated absences	(35,317)
Internal service funds are used by management to charge the costs of certain activities, as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	
Net loss from governmental activities accounted for in internal service funds	<u>(139,621)</u>
Change in net position of governmental activities	<u><u>\$ (1,102,536)</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property tax levy	\$ 1,380,000	\$ 1,457,232	\$ 1,456,356	\$ (876)	\$ 1,422,419
Earnings on investments and deposits	20,000	15,737	15,321	(416)	18,738
Rentals	11,200	14,725	13,500	(1,225)	7,520
Other	3,930,460	4,142,679	3,954,898	(187,781)	4,352,275
Total local sources	5,341,660	5,630,373	5,440,075	(190,298)	5,800,952
State sources:					
State school aid	2,041,700	2,289,691	2,267,512	(22,179)	2,471,989
Other	4,673,186	4,624,701	3,489,523	(1,135,178)	2,295,710
Total state sources	6,714,886	6,914,392	5,757,035	(1,157,357)	4,767,699
Federal sources:					
Title I	27,000	297,000	185,872	(111,128)	17,463
Title II	937	11,750	1,874	(9,876)	14,943
Other	150,000	90,310	94,014	3,704	234,684
Total federal sources	177,937	399,060	281,760	(117,300)	267,090
Total revenues	12,234,483	12,943,825	11,478,870	(1,464,955)	10,835,741
Expenditures					
Supporting services:					
Pupil support	377,394	405,824	262,317	(143,507)	380,489
Instructional support	2,563,392	3,118,328	2,590,730	(527,598)	2,340,808
General administration	445,583	536,190	487,064	(49,126)	428,944
Business services	1,234,538	1,382,520	1,335,605	(46,915)	1,127,523
Operations and maintenance	732,119	780,795	531,795	(249,000)	526,201
Central services	5,496,580	5,545,846	5,351,581	(194,265)	4,820,197
Community services	10,000	106,446	84,144	(22,302)	82,205
Total supporting services	10,859,606	11,875,949	10,643,236	(1,232,713)	9,706,367
Payments to other governmental entities or units	4,658,877	4,161,533	3,443,614	(717,919)	2,457,309
Total expenditures	15,518,483	16,037,482	14,086,850	(1,950,632)	12,163,676
Revenues under expenditures	(3,284,000)	(3,093,657)	(2,607,980)	485,677	(1,327,935)

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing sources (uses)					
Sale of capital assets	\$ -	\$ -	\$ -	\$ -	\$ 200
Transfers in	2,670,000	2,670,000	2,670,000	-	2,670,000
Transfers out	-	-	-	-	(1,000,000)
Total other financing sources	2,670,000	2,670,000	2,670,000	-	1,670,200
Net change in fund balance	(614,000)	(423,657)	62,020	485,677	342,265
Fund balance, beginning of year	2,635,898	2,635,898	2,635,898	-	2,293,633
Fund balance, end of year	\$ 2,021,898	\$ 2,212,241	\$ 2,697,918	\$ 485,677	\$ 2,635,898

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Special Education Special Revenue Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property taxes	\$ 25,325,000	\$ 26,641,686	\$ 26,622,344	\$ (19,342)	\$ 26,087,242
Earnings on investments and deposits	10,000	23,075	21,502	(1,573)	17,438
Contributions	1,000	965	965	-	1,247
Medicaid fee for service	2,000,000	1,861,000	1,916,923	55,923	2,474,996
Other	165,000	196,242	209,919	13,677	122,186
Total local sources	27,501,000	28,722,968	28,771,653	48,685	28,703,109
State sources:					
State school aid - unrestricted	6,788,589	7,116,542	7,176,680	60,138	6,440,559
State school aid - restricted	2,968,626	3,050,746	3,049,622	(1,124)	2,965,667
Total state sources	9,757,215	10,167,288	10,226,302	59,014	9,406,226
Federal sources:					
IDEA flowthrough	5,528,200	5,533,558	5,119,473	(414,085)	5,753,536
Preschool incentive	227,245	444,618	208,734	(235,884)	187,364
Infant and toddler early intervention	311,907	154,498	154,498	-	328,426
State initiated	201,000	207,560	207,560	-	175,801
Total federal sources	6,268,352	6,340,234	5,690,265	(649,969)	6,445,127
Total revenues	43,526,567	45,230,490	44,688,220	(542,270)	44,554,462
Expenditures					
Instruction -					
Added needs - special education	10,297,691	10,323,998	10,280,656	(43,342)	9,904,809
Supporting services:					
Pupil support	13,974,431	14,460,176	14,565,245	105,069	13,125,870
Instructional support	2,152,008	2,179,978	2,184,625	4,647	1,830,941
General administration	682,855	759,146	676,571	(82,575)	677,398
School administration	420,116	417,315	435,319	18,004	373,064
Business services	326,200	226,021	222,743	(3,278)	294,444
Operations and maintenance	821,840	791,155	796,469	5,314	774,506
Transportation	3,289,647	3,238,934	3,188,314	(50,620)	3,042,546
Central services	270,825	313,269	299,846	(13,423)	275,608
Total supporting services	21,937,922	22,385,994	22,369,132	(16,862)	20,394,377
Payments to other governmental entities or units	10,841,954	11,677,210	11,666,627	(10,583)	9,950,324
Total expenditures	43,077,567	44,387,202	44,316,415	(70,787)	40,249,510
Revenues over expenditures	449,000	843,288	371,805	(471,483)	4,304,952

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Special Education Special Revenue Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing sources (uses)					
Transfers in	\$ 150,000	\$ 150,000	\$ 150,000	\$ -	\$ 547
Transfers out	(1,390,000)	(1,639,463)	(1,389,463)	(250,000)	(2,891,125)
Total other financing sources (uses)	(1,240,000)	(1,489,463)	(1,239,463)	(250,000)	(2,890,578)
Net change in fund balance	(791,000)	(646,175)	(867,658)	(221,483)	1,414,374
Fund balance, beginning of year	3,214,612	3,214,612	3,214,612	-	1,800,238
Fund balance, end of year	<u>\$ 2,423,612</u>	<u>\$ 2,568,437</u>	<u>\$ 2,346,954</u>	<u>\$ (221,483)</u>	<u>\$ 3,214,612</u>

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Career Technical Education Special Revenue Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Revenues					
Local sources:					
Property taxes	\$ 8,625,000	\$ 9,125,455	\$ 9,158,153	\$ 32,698	\$ 8,900,938
Tuition	250,000	253,120	241,160	(11,960)	303,886
Earnings on investments and deposits	18,000	19,568	19,527	(41)	26,918
Other	173,300	291,921	295,882	3,961	223,806
Total local sources	9,066,300	9,690,064	9,714,722	24,658	9,455,548
State sources:					
Unrestricted state aid	897,199	1,050,204	1,062,224	12,020	912,679
Vocational education	422,120	432,576	439,368	6,792	429,235
Other	-	14,250	14,250	-	14,000
Total state sources	1,319,319	1,497,030	1,515,842	18,812	1,355,914
Federal sources -					
Perkins	331,200	290,168	290,168	-	367,991
Total revenues	10,716,819	11,477,262	11,520,732	43,470	11,179,453
Expenditures					
Instruction:					
Basic programs - vocational education	5,845,130	5,704,908	5,766,879	61,971	5,539,150
Adult education	288,167	278,563	264,450	(14,113)	277,737
Total instruction	6,133,297	5,983,471	6,031,329	47,858	5,816,887
Supporting services:					
Pupil support	773,156	723,999	738,584	14,585	741,103
Instructional support	462,485	467,339	365,084	(102,255)	431,076
School administration	585,427	604,167	612,838	8,671	592,069
Business services	108,000	74,020	79,494	5,474	110,791
Operations and maintenance	973,618	993,975	901,782	(92,193)	868,458
Transportation	41,694	54,203	49,687	(4,516)	47,069
Central services	721,142	718,049	647,041	(71,008)	720,798
Total supporting services	3,665,522	3,635,752	3,394,510	(241,242)	3,511,364
Payments to other governmental entities or units	25,000	22,000	16,985	(5,015)	72,001
Total expenditures	9,823,819	9,641,223	9,442,824	(198,399)	9,400,252
Revenues over expenditures	893,000	1,836,039	2,077,908	241,869	1,779,201

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - Career Technical Education Special Revenue Fund

For the Year Ended June 30, 2014

With Comparative Actual Amounts for the Year Ended June 30, 2013

	2014				2013 Actual
	Original Budget	Final Budget	Actual	Over (under) Final Budget	
Other financing uses					
Transfers out	\$ (1,510,000)	\$ (1,910,000)	\$ (1,510,000)	\$ (400,000)	\$ (2,110,000)
Net change in fund balance	(617,000)	(73,961)	567,908	641,869	(330,799)
Fund balance, beginning of year	3,351,324	3,351,324	3,351,324	-	3,682,123
Fund balance, end of year	<u>\$ 2,734,324</u>	<u>\$ 3,277,363</u>	<u>\$ 3,919,232</u>	<u>\$ 641,869</u>	<u>\$ 3,351,324</u>

concluded.

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Net Position

Proprietary Funds

June 30, 2014

	Governmental Activities	Internal Service Funds
Assets		
Cash	\$ 49,736	
Due from other governments	21,206	
Due from other funds	<u>803</u>	
Total assets	71,745	
Liabilities		
Accounts payable	<u>1,550</u>	
Net position		
Restricted		<u>\$ 70,195</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service Funds
Operating revenues	
Charges for services	\$ 97,166
State revenue	1,680
	<hr/>
Total operating revenues	98,846
Operating expenses	
Supporting services	238,697
	<hr/>
Operating loss	(139,851)
Nonoperating revenue	
Interest revenue	230
	<hr/>
Net loss	(139,621)
Net position, beginning of year	209,816
	<hr/>
Net position, end of year	<u>\$ 70,195</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2014

	Governmental Activities
	Internal Service Funds
Cash flows from operating activities	
Cash received from customers	\$ 146,211
Cash payments for goods and services	(236,052)
	<hr/>
Net cash used by operating activities	(89,841)
Cash flows from investing activities	
Interest received	230
	<hr/>
Net change in cash and cash equivalents	(89,611)
Cash and cash equivalents, beginning of year	139,347
	<hr/>
Cash and cash equivalents, end of year	<u>\$ 49,736</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (139,851)
Adjustments to reconcile operating loss to net cash used by operating activities	
Change in:	
Due from other governments	50,042
Due from other funds	(803)
Accounts payable	1,550
Due to other funds	(324)
Deferred inflows	(455)
	<hr/>
Net cash used by operating activities	<u>\$ (89,841)</u>

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Fiduciary Net Position - All Fiduciary Funds June 30, 2014

	Private Purpose Trust Fund	Agency Fund
	Imagination Library	
Assets		
Cash and cash equivalents	\$ 57,717	\$ 73,434
Liabilities		
Due to student groups and activities	-	\$ 73,434
Net position		
Restricted	\$ 57,717	

The accompanying notes are an integral part of these financial statements.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Position - Private Purpose Trust Fund

Imagination Library

For the Year Ended June 30, 2014

Revenues	
Local sources-	
Contributions	<u>\$ 75,753</u>
Expenses	
Books	49,902
Other expenses	<u>18,813</u>
Total expenses	<u>68,715</u>
Change in net position	7,038
Net position, beginning of year	<u>50,679</u>
Net position, end of year	<u><u>\$ 57,717</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Jackson County Intermediate School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, except for agency funds, which do not have a measurement focus, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for and reported in another fund.

The *special education special revenue fund* accounts for special education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *career technical education special revenue fund* accounts for vocational education initiatives carried out by the District, which are primarily financed through restricted state aid and property taxes.

The *capital projects recurring projects fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditure for improvements and projects funded by the general fund, special education fund, and career technical education center fund.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

The *debt service* fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The *capital projects* funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Private purpose trust fund is used to account for funding through donations with a mission to mail one free book per month to kids under the age of 5 aiming to improve literacy of pre-kindergarten children.

The *agency fund* accounts for assets held for student activity groups and organizations and are custodial in nature.

The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis.

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

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Assets, Liabilities, Deferred Inflows of Resources, and Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value based on quoted market prices.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Inventory and Prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the fund financial statements are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years, or computer equipment with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Buildings and improvements	50
Furniture and equipment	5-20
Transportation equipment	5-10

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Compensated Absences

Vacation and Sick Pay - Vacation days are earned by most year-round employees at rates specified under contractual provisions. Retiring/terminated employees are paid for unused accumulated vacation days. The District's sick pay and personal leave policies allow for accumulation of up to a certain number of days depending on the employee group involved. Upon termination of employment, all accumulated sick and personal days are forfeited. It is the District's policy to recognize the cost of such leave at the time payments are made.

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation days. The liability has been calculated for employees who currently are eligible to receive termination payments. The amount reported is salary related and includes no fringe benefits.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under the modified accrual basis of accounting, from accounts receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. These amounts are not deferred in the government-wide financial statements, which are reflected on the accrual basis of accounting.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District’s policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

2. BUDGETARY INFORMATION

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All annual appropriations lapse at fiscal year end. The budgets for the general and special revenue funds are adopted on a functional basis.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Budget to actual comparisons for the general fund and each major special revenue fund are presented in the fund financial statements at the legal level of budgetary control. Expenditures in excess of appropriations for the year ended June 30, 2014 are as follows:

	Final Budget	Actual	Over Budget
Special education:			
Supporting services:			
Pupil support	\$ 14,460,176	\$ 14,565,245	\$ 105,069
Instructional support	2,179,978	2,184,625	4,647
School administration	417,315	435,319	18,004
Operations and maintenance	791,155	796,469	5,314
Career technical education:			
Instruction -			
Basic programs - vocational education	5,704,908	5,766,879	61,971
Supporting services:			
Pupil support	723,999	738,584	14,585
School administration	604,167	612,838	8,671
Business services	74,020	79,494	5,474

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Fiduciary Statement of Net Position follows:

Statement of Net Position	
Cash and cash equivalents	\$ 16,071,985
Investments	816,089
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>131,151</u>
Total	<u>\$ 17,019,225</u>
Deposits and investments	
Cash on hand	\$ 600
Bank deposits (checking, savings accounts and CDs)	13,471,385
Investments	<u>3,547,240</u>
Total	<u>\$ 17,019,225</u>

Statutory Authority

State statutes authorize the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

The District chooses to disclose its investments by specifically identifying each. At June 30, 2014, the District had the following investments:

Deposit / Investment	Maturity	Fair Value	Rating
Comerica Investment Pool	n/a	\$ 6,691	n/a
Money Market Funds	n/a	3,180,349	n/a
Michigan Liquid Asset Fund	n/a	<u>360,200</u>	S&P - AAAM
		<u>\$ 3,547,240</u>	

Deposit and Investment Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$13,357,641 of the District’s bank balance of \$14,177,794 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. None of the District’s investments are subject to custodial credit risk because their existence is not evidenced by securities in physical or book form.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

5. RECEIVABLES

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Special Education	Career Technical Education	Nonmajor Governmental Funds
Intergovernmental	\$ 1,838,403	\$ 2,501,569	\$ 315,520	\$ 12,075
Accounts receivable	<u>7,288</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,845,691</u>	<u>\$ 2,501,569</u>	<u>\$ 315,520</u>	<u>\$ 12,075</u>

	Internal Service Fund	Total
Intergovernmental	\$ 21,206	\$ 4,688,773
Accounts receivable	<u>-</u>	<u>7,288</u>
	<u>\$ 21,206</u>	<u>\$ 4,696,061</u>

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated - Land	\$ 25,007	\$ -	\$ -	\$ 25,007
Capital assets, being depreciated:				
Land improvements	2,548,260	25,525	-	2,573,785
Buildings and improvements	22,954,723	577,076	-	23,531,799
Furniture and equipment	3,044,687	393,462	(406,133)	3,032,016
Transportation equipment	2,482,191	-	(214,205)	2,267,986
	<u>31,029,861</u>	<u>996,063</u>	<u>(620,338)</u>	<u>31,405,586</u>
Less accumulated depreciation for:				
Land improvements	(381,733)	(80,011)	-	(461,744)
Buildings and improvements	(14,500,349)	(693,137)	-	(15,193,486)
Furniture and equipment	(1,711,411)	(255,271)	404,343	(1,562,339)
Transportation equipment	(1,784,989)	(181,844)	214,205	(1,752,628)
	<u>(18,378,482)</u>	<u>(1,210,263)</u>	<u>618,548</u>	<u>(18,970,197)</u>
Total capital assets being depreciated, net	<u>12,651,379</u>	<u>(214,200)</u>	<u>(1,790)</u>	<u>12,435,389</u>
Governmental activities capital assets, net	<u>\$ 12,676,386</u>	<u>\$ (214,200)</u>	<u>\$ (1,790)</u>	<u>\$ 12,460,396</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Depreciation expense of \$1,210,263 was reported on the statement of activities as “unallocated depreciation” (i.e., not allocated to functions/programs).

7. PAYABLES

Accounts payable and accrued liabilities as of year end for the District’s individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Special Education	Career Technical Education	Recurring Projects
Accounts payable	\$ 371,844	\$ 328,620	\$ 93,200	\$ 39,224
Salaries payable	35,948	2,505,061	590,960	-
Due to other governments	402,119	-	-	-
Accrued expenditures	72,776	1,496,275	353,125	-
	<u>\$ 882,687</u>	<u>\$ 4,329,956</u>	<u>\$ 1,037,285</u>	<u>\$ 39,224</u>

	Nonmajor Governmental Funds	Internal Service Fund	Totals
Accounts payable	\$ 2,325	\$ 1,550	\$ 836,763
Salaries payable	-	-	3,131,969
Due to other governments	-	-	402,119
Accrued liabilities	-	-	1,922,176
	<u>\$ 2,325</u>	<u>\$ 1,550</u>	<u>\$ 6,293,027</u>

8. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2014, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General	\$ 11,204	\$ 2,183,585
Special education	1,000,000	1,884,996
Career technical education	-	2,031,505
Recurring projects	5,099,283	-
Nonmajor governmental funds	-	11,204
Internal service fund	803	-
	<u>\$ 6,111,290</u>	<u>\$ 6,111,290</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

For the year ended June 30, 2014, interfund transfers consisted of the following:

	Transfers in	Transfers out
General	\$ 2,670,000	\$ -
Special education	150,000	1,389,463
Career technical education	-	1,510,000
Nonmajor governmental funds	79,463	-
	<u>\$ 2,899,463</u>	<u>\$ 2,899,463</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2014, the District transferred funds to provide funds for debt service and to return surplus special education to the general fund.

9. LONG-TERM DEBT

Long-term debt and other obligations of the District at June 30, 2014, are summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2009 School Building & Site Bonds, due in annual installments of \$40,000 to \$75,000 through the year 2029; interest at 2.0%	\$ 865,000	\$ -	\$ (35,000)	\$ 830,000	\$ 40,000
Compensated absences	<u>136,275</u>	<u>76,317</u>	<u>(41,000)</u>	<u>171,592</u>	<u>34,318</u>
Total long-term debt	<u>\$ 1,001,275</u>	<u>\$ 76,317</u>	<u>\$ (76,000)</u>	<u>\$ 1,001,592</u>	<u>\$ 74,318</u>

Compensated absences are generally liquidated by the general, special education, and career technical education funds.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

Future principal and interest payment requirements on outstanding debt are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 40,000	\$ 42,550	\$ 82,550
2016	40,000	40,650	80,650
2017	40,000	38,750	78,750
2018	45,000	36,850	81,850
2019	45,000	34,713	79,713
2020-2024	270,000	137,125	407,125
2025-2029	350,000	58,913	408,913
Totals	<u>\$ 830,000</u>	<u>\$ 389,551</u>	<u>\$ 1,219,551</u>

10. LEASE AGREEMENTS

The District entered into an operating lease agreement for 3 buses with an original balance of \$276,933. The District entered into an additional operating lease for 4 buses with an original balance of \$386,740. The future minimum lease obligation of these minimum lease payments as of June 30, 2014 are as follows:

Year	Amount
2015	\$ 128,857
2016	208,714
2017	189,933
	<u>\$ 527,504</u>

Rental expense on these two leases was \$128,857 for the year ended June 30, 2014.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

The District is self-insured to provide health benefits for certain employee groups. The District estimates the liability for its self-insured coverages and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the District's third-party administrators for claims management and are recorded in the general fund. Changes in the estimated liability are as follows:

	2014	2013
Estimated liability, beginning of year	\$ 59,017	\$ 33,515
Estimated claims incurred, including changes in estimates	648,580	737,622
Claim payments	<u>(609,815)</u>	<u>(712,120)</u>
Estimated liability, end of year	<u>\$ 97,782</u>	<u>\$ 59,017</u>

12. PROPERTY TAXES

Property taxes are assessed as of December 31 and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on whose boundaries include property within the District and are due on September 15.

13. DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a collection of several retirement plans administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees' Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Funding Policy

Defined Benefit Plans

Member contribution rates vary based on date of hire and certain voluntary elections. Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 through June 30, 2008 contribute at the following graduated permanently fixed contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000. Members first hired July 1, 2008 through June 30, 2010 contribute at the following graduated permanently fixed contribution rates: 3.0 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. Basic Plan members make no contributions. Basic 4% and MIP 7% members contribute 4 percent and 7 percent of pretax salary, respectively. Based on the option selected at enrollment, these individuals contribute at a fixed rate until termination of employment or until reaching 30 years of service. At that time, based on the option selected, employee contributions are no longer required or revert to the contribution requirements under the MIP plan in which the employee initially enrolled.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree healthcare benefits on a cash disbursement basis. The rates for the year ended June 30, 2014 as a percentage of payroll ranged from 24.32 to 24.79 percent. In addition, the District is invoiced monthly an amount that approximates 4.56 percent of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services.

Hybrid Plans

Members hired between July 1, 2010 and September 3, 2012 are enrolled in the Pension Plus plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan (described below). Participant contributions contain a pension component as well as a savings component. The pension component is based on the following pretax contribution rates: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 6.4 percent of all wages over \$15,000. For the savings component, participants contribute 2 percent of gross pay to a 457 plan. Member contributions for the savings component are matched at a rate of 50 percent by the employer, up to a maximum of one percent and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in the defined benefit plan were provided the option to convert to a defined contribution plan. In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4 percent employer contributions to a personal 401(k) account.

Voluntary employee contributions are permitted in accordance with IRS guidelines. Employer contributions for the pension component of the plan vest at 10 years of service. Employer contributions for the savings component and earnings thereon vest based on the following schedule: 50 percent at 2 years of service, 75 percent at 3 years of service, and 100 percent at 4 years of service. Any voluntary contributions vest with the employee immediately. If a member participating in the hybrid plan retires with certain age and service requirements, he or she will receive a monthly pension based on compensation received before February 1, 2013.

Defined Contribution Plan

A member first enrolling in MPSERS on or after September 4, 2012 is automatically enrolled in the defined contribution plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the hybrid plan as described above.

Required Contribution

The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS under all plans for the years ended June 30, 2014, 2013, and 2012 were \$7,610,456, \$6,304,661, and \$5,608,808, respectively, equal to the required contributions for each year.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Financial Statements

14. OTHER POSTEMPLOYMENT BENEFITS

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Plan participants contribute 3 percent of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80 percent of cost.

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2 percent employee contribution into a personal tax-deferred account, which is matched by an additional 2 percent employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3 percent employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits are not separately identified and are included in the contribution amounts disclosed above.

15. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2014, net investment in capital assets was comprised of the following:

Net investment in capital assets	
Capital assets not being depreciated	\$ 25,007
Capital assets being depreciated, net	12,435,389
Bonds payable	<u>(830,000)</u>
Total net investment in capital assets	<u>\$ 11,630,396</u>

16. EFFECT OF UPCOMING CHANGES IN ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which will be effective for the District's fiscal year ending June 30, 2015. This statement will require the recognition of a "net pension liability" on the statement of net position, equal to the unfunded portion of the District's defined benefit pension plan, as defined and calculated in accordance with the new standard. While the exact amount of this liability is not readily determinable at this time, management estimates that it may approximate \$66,239,000. GASB 68 will require the net pension liability to be recorded for the year ending June 30, 2015, by restating beginning net position as of July 1, 2014.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

■ Notes to Financial Statements

17. SUBSEQUENT EVENTS

In July 2014, subsequent to the close of the 2014 fiscal year, the District started a renovation project of the cafeteria at the District's Tarrant Center. The total of architect and construction manger fees, plus actual construction costs is expected to total approximately \$600,000. The funds required to complete this project have been fully set aside over the past couple of years and are available in the District's capital projects fund. This project is expected to be completed in October 2014.

On August 25, 2014, the District entered into an operating lease agreement for the leasing of seven new buses totaling \$678,006. Lease payments each year are expected to be \$131,322.

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COMBINING FUND STATEMENTS

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue	Debt Service	Capital Projects	
	Training Assistance	2009 Debt Service	Technology	Totals
Assets				
Cash and cash equivalents	\$ 632,135	\$ -	\$ 242,491	\$ 874,626
Due from other governments	12,075	-	-	12,075
Total assets	<u>\$ 644,210</u>	<u>\$ -</u>	<u>\$ 242,491</u>	<u>\$ 886,701</u>
Liabilities				
Accounts payable	\$ 2,325	\$ -	\$ -	\$ 2,325
Due to other funds	11,204	-	-	11,204
Total liabilities	13,529	-	-	13,529
Deferred inflows of resources				
Unavailable accounts receivable	480	-	-	480
Fund balances				
Restricted	630,201	-	242,491	872,692
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 644,210</u>	<u>\$ -</u>	<u>\$ 242,491</u>	<u>\$ 886,701</u>

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds For the Year Ended June 30, 2014

	Special Revenue	Debt Service	Capital Projects	
	Training Assistance	2009 Debt Service	Technology	Totals
Revenues				
Local revenue:				
Tuition	\$ 11,800	\$ -	\$ -	\$ 11,800
Earnings on investments and deposits	-	-	692	692
Other	2,137	-	92,073	94,210
State revenue	45,493	-	-	45,493
Total revenues	59,430	-	92,765	152,195
Expenditures				
Supporting services - other	46,042	-	-	46,042
Debt service:				
Principal	-	35,000	-	35,000
Interest	-	44,463	-	44,463
Capital outlay - Technology capital improvements	-	-	56,841	56,841
Total expenditures	46,042	79,463	56,841	182,346
Revenues over (under) expenditures	13,388	(79,463)	35,924	(30,151)
Other financing sources				
Transfers in	-	79,463	-	79,463
Net change in fund balances	13,388	-	35,924	49,312
Fund balance, beginning of year	616,813	-	206,567	823,380
Fund balance, end of year	\$ 630,201	\$ -	\$ 242,491	\$ 872,692

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

November 3, 2014

To the Board of Education of
Jackson County Intermediate School District
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Jackson County Intermediate School District* (the "District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 3, 2014, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
2011-2012 Michigan Nutrition Network - SPLASH	10.561	Direct	-n/a-
2012-2013 Michigan Nutrition Network - SPLASH	10.561	Direct	-n/a-
Total U.S. Department of Agriculture			
U.S. Department of Education			
2012-2013 Title I Regional Assistance	84.010	MDE	131570-1213
2013-2014 Title I Regional Assistance	84.010	MDE	141570-1314
2013-2014 Multi Tier System of Supports/Response to Intervention	84.010A	MAISA	2013-2014
Special Education Cluster:			
2012-2013 IDEA Flowthrough	84.027A	MDE	130450-1213
2013-2014 IDEA Flowthrough	84.027A	MDE	140450-1314
2012-2013 State Initiated / Competitive EOSD	84.027A	MDE	130480-EOSD
2013-2014 State Initiated / Competitive EOSD	84.027A	MDE	140480-EOSD
2012-2013 State Initiated / Department TS	84.027A	MDE	130490-TC
2013-2014 State Initiated / Department TS	84.027A	MDE	140490-TC
2011-2012 Preschool Incentive	84.173A	MDE	120460-1112
2012-2013 Preschool Incentive	84.173A	MDE	130460-1112
2013-2014 Preschool Incentive	84.173A	MDE	140460-1314
2012-13 Perkins	84.048A	HCISD	-n/a-
2013-14 Perkins	84.048A	HCISD	-n/a-
2011-2012 Infant and Toddler Formula	84.181A	MDE	121340-190
2012-2013 Infant and Toddler Formula	84.181A	MDE	131340-1213
2013-2014 Infant and Toddler Formula	84.181A	MDE	141340-1314
2009-10 McKinney-Vento Homeless Education	84.196A	MDE	102320-0910
2011-12 McKinney-Vento Homeless Education	84.196A	MDE	122320-1112C
2012-13 McKinney-Vento Homeless Education	84.196A	MDE	132320-1213
2013-14 McKinney-Vento Homeless Education	84.196A	MDE	142320-1314

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2013	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 264,552	\$ -	\$ -	\$ 30,253	\$ -	\$ -
181,798	29,071	46,904	132,475	17,833	-
	<u>29,071</u>	<u>46,904</u>	<u>162,728</u>	<u>17,833</u>	<u>-</u>
30,000	820	13,357	17,463	12,537	-
270,000	-	154,872	-	173,335	18,463
9,465	-	9,465	-	9,465	-
	<u>820</u>	<u>177,694</u>	<u>17,463</u>	<u>195,337</u>	<u>18,463</u>
5,754,711	157,576	157,576	5,753,536	1,175	1,175
5,532,383	-	4,453,291	-	5,118,298	665,007
50,000	2,814	2,814	21,721	-	-
50,000	-	30,346	-	50,000	19,654
65,000	12,425	12,425	65,000	-	-
65,000	-	58,339	-	65,000	6,661
227,323	-	-	32,781	-	-
227,245	65,790	138,452	154,583	72,662	-
217,373	-	87,927	-	136,072	48,145
	<u>238,605</u>	<u>4,941,170</u>	<u>6,027,621</u>	<u>5,443,207</u>	<u>740,642</u>
367,991	94,540	94,540	367,991	-	-
290,168	-	235,178	-	290,168	54,990
	<u>94,540</u>	<u>329,718</u>	<u>367,991</u>	<u>290,168</u>	<u>54,990</u>
163,307	-	-	163,307	-	-
165,119	69,060	69,060	165,119	-	-
154,498	-	51,239	-	154,498	103,259
	<u>69,060</u>	<u>120,299</u>	<u>328,426</u>	<u>154,498</u>	<u>103,259</u>
42,860	(6,530)	-	-	-	(6,530)
56,861	3,617	3,782	48,849	165	-
71,526	-	6,701	23,107	16,237	9,536
75,845	-	41,712	-	50,314	8,602
	<u>(2,913)</u>	<u>52,195</u>	<u>71,956</u>	<u>66,716</u>	<u>11,608</u>

continued...

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Education (concluded)			
2012-2013 Title II, Part A Regular	84.367	MDE	12052-1112
2012-2013 Title II, Part A Regular	84.367	MDE	13052-1213
2013-2014 Title II, Part A Regular	84.367	MDE	14052-1213
ARRA 2011-2012 Title II, Part D	84.386	MDE	114240-RDI-1
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Medicaid Administrative Outreach 13-14	93.778	MDE	-n/a-
Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.

Approved Awards Amount	Accrued (Unearned) Revenue at July 1, 2013	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures	Accrued (Unearned) Revenue at June 30, 2014
\$ 937	\$ -	\$ -	\$ 5	\$ -	\$ -
937	-	937	-	937	-
937	-	-	-	937	937
	<u>-</u>	<u>937</u>	<u>5</u>	<u>1,874</u>	<u>937</u>
21,460	-	-	14,938	-	-
	<u>400,112</u>	<u>5,622,013</u>	<u>6,828,400</u>	<u>6,151,800</u>	<u>929,899</u>
181,640	-	92,560	89,080	92,560	-
	<u>\$ 429,183</u>	<u>\$ 5,761,477</u>	<u>\$ 7,080,208</u>	<u>\$ 6,262,193</u>	<u>\$ 929,899</u>

concluded.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of the Jackson County Intermediate School District (the “District”) under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
MAISA	Michigan Association of Intermediate School Administrators
HCISD	Hillsdale County Intermediate School District

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

4. SUBRECIPIENTS

The reporting entity of the Jackson County Intermediate School District is defined in Note I of the District's basic financial statements. The District administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the District's reporting entity. Of the federal expenditures presented in the schedule, the District provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
MTSS/RTI Grant	84.010A	\$ 3,587
McKinney-Vento Homeless Grant	84.196A	<u>58,959</u>
		<u>\$ 62,546</u>

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JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Federal Sub-Grantee Recipients

For the Year Ended June 30, 2014

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Current Year Expenditures
2013-14 Multi Tier System of Supports/Response to Intervention Grant 12158	84.010A	
Jackson Public Schools		\$ 2,614
Vandercook Lake Public Schools		493
Western School District		480
		<u>480</u>
		<u>\$ 3,587</u>
2012-13 McKinney-Vento Homeless Grant 132320	84.196A	
Jackson Public Schools		\$ 9,363
Columbia School District		679
Concord Community Schools		1,849
East Jackson Public Schools		2,435
Grass Lake Community Schools		1,489
Hanover Horton Community Schools		2,273
Michigan Center School District		3,294
Napoleon Community Schools		846
Northwest Community Schools		1,993
Springport Public Schools		2,124
Vandercook Lake Public Schools		3,063
Western School District		6,831
DaVinci Primary Schools		2,431
Aware Shelter		932
Jackson Interfaith Shelter		1,430
		<u>1,430</u>
Total McKinney-Vento Homeless Grant 132320		<u>\$ 41,032</u>
2013-14 McKinney-Vento Homeless Grant 142320	84.196A	
Jackson Public Schools		\$ 3,208
Concord Community Schools		148
East Jackson Public Schools		1,181
Grass Lake Community Schools		21
Michigan Center School District		473
Northwest Community Schools		2,850
Springport Public Schools		1,548
Vandercook Lake Public Schools		1,937
Western School District		4,136
DaVinci Primary Schools		2,195
Aware Shelter		230
		<u>230</u>
Total McKinney-Vento Homeless Grant 142320		<u>\$ 17,927</u>

INDEPENDENT AUDITORS' 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*

November 3, 2014

To the Board of Education of
Jackson County Intermediate School District
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Jackson County Intermediate School District* (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Rehmann Lobson LLC

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

November 3, 2014

To the Board of Education of
Jackson County Intermediate School District
Jackson, Michigan

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Independent Auditors' Responsibility

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

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

Opinion on the Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-SA-01. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-SA-01 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rehmann Lobson LLC

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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84.027A & 84.173A	Special Education Cluster
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Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 300,000 </u>
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Auditee qualified as low-risk auditee?	<u> x </u> yes <u> </u> no
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SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-SA-01 - Documentation of Personnel Costs in Accordance with OMB Circular A-87

Finding Type. Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance (Allowable Costs / Cost Principles)

Program. Special Education Cluster; IDEA, Part B and IDEA Preschool; U.S. Department of Education; Passed-through the Michigan Department of Education; CFDA Number 84.027A and 84.173A; Award Number: 140450-1314.

Criteria. Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with adequate documentation including a semi-annual certification or a personnel activity report for any employee charged to a single cost objective. The certification should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition. Personnel costs for two of 19 employees included in our selection were not supported by semi-annual certifications or personnel activity reports.

Cause. This appears to be the result of program management not having a process for ensuring all employees charged to the grant have the required semi-annual certification completed.

Effect. As a result of this condition, the District did not fully comply with the documentation requirements for personnel costs charged to this program.

Questioned Costs. No costs were questioned inasmuch as the District recorded adjustments for costs not properly documented and the amounts are no longer included in amounts reported for this grant.

Recommendation. We recommend the District implement procedures to ensure the requirement for documentation of payroll costs is met.

Corrective Action Plan. The documentation issue resulted from personnel being reassigned during the course of the year and inadequate procedures in place to identify the need for the employees newly assigned to these grant funded positions to complete semi-annual certifications. Additional steps have been added in the Special Education Department personnel procedures whenever personnel are reassigned to new positions. An additional double check has been put in place within the Finance Department to ensure that all personnel being charged to a federal grant are completing semi-annual certifications.

Responsible Official. Richard Rendell - Special Ed and Lauren Bailey - Finance

Estimated Completion Date. October 2014



JACKSON COUNTY INTERMEDIATE SCHOOL DISTRICT

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2014

None reported.

