

Audit and Risk Management Advisory Committee (ARMAC) Meeting Jefferson County Public Schools

October 29, 2025

(Meeting began approximately 1:53 p.m.)

Location: Stewart Auditorium

ARMAC Members Present

Chair James Rose, Vice Chair Rhonda Mitchell, Dr. Eric Russ, Jenna Cowley, Wilbert Whitfield

JCPS Staff Present

Dr. Brian Yearwood (Superintendent), Dr. Katy Deferrari (Chief of Staff), Eddie Muns, (Chief Financial Officer), Cecil Comstock (Executive Administrator of Accounting), May Porter (Director of Internal Audit), Sam Zaritsky, Chalynn Comage, John LeMaster, Sonya Miller, and Gina Thompson (Internal Audit)

LBMC External Auditors

Megan Reynolds (Shareholder), and Rene Valadez Ruiz (Senior Manager)

Board Members Present

Vice Chair James Craig and Member Taylor Everett

Call to Order and Approval of Minutes

Chair James Rose called the meeting to order at 1:53 p.m. and confirmed a quorum. A motion to approve the minutes of the April 16, 2025, meeting was made by James Rose and seconded by Wilbert Whitfield. The motion carried by unanimous voice vote.

Budget Update and Financial Position – James Rose and Eddie Muns

Chair Rose began with contextual remarks on recent board discussions and public communication related to the district's budget shortfall. He commented on the need for consistent messaging and referred to prior use of "the I-word," emphasizing that the term insolvency had been mischaracterized in public discussion. He noted that liquidity and timing of tax receipts are part of normal treasury management practices.

Chief Financial Officer Eddie Muns then provided an update on progress toward achieving approximately \$132 million in reductions for the FY 2026 draft budget. He stated that reductions were being developed through a cross-divisional review process led by Cabinet and that about half related to reducing staff vacancy rates, with the remainder tied to right-sizing programs and departmental operations. He reiterated that the district's guiding principle is to look first to central-office operations for efficiencies and to minimize classroom impact.

Dr. Yearwood added that surveys of teachers and parents were being developed to gather input on priorities as reductions are finalized.

Mr. Whitfield asked whether management had prioritized the proposed reductions based on likelihood of success and potential return on investment, expressing concern about whether the district could achieve the full \$132 million target without unintended consequences. Mr. Muns responded that the cross-divisional review process had evaluated both feasibility and effectiveness.

External Assessment Updates – Discussion Led by Chair Rose, Board Vice Chair Craig, Dr. Yearwood, and Ms. Porter

Chair Rose referenced the two external reviews currently underway: the board-requested External Assessment of Fiscal Administration and the Budget Shortfall and the Independent Forecast Verification engagement.

Board Vice Chair James Craig asked about expected completion dates and the extent to which results could inform the draft budget due to be presented in January 2026.

Dr. Yearwood explained that the Plante Moran assessment is a more comprehensive, forensic-style review examining fiscal administration practices and governance factors behind the structural shortfall. Because of its depth, it may not be complete by January.

Ms. Porter added that the Independent Forecast Verification focuses on the multiyear forecasting tool rather than the entire budget process. Due to the cancellation of the November 4 Board meeting, contract approval was rescheduled to November 18, compressing the timeline. If all data are received promptly, preliminary results could potentially be available by December 11, with a final report approximately one week later.

Discussion on Budget Framing and Messaging

Vice Chair Craig asked whether the forthcoming budget proposal would be “balanced” or “responsible,” and what distinction the administration intended.

Mr. Muns stated that the district’s goal is a responsible budget, explaining that a technically balanced budget is not always appropriate because it would mean budgeting to spend less than the full amount available for the current year’s students. A responsible budget, he said, ensures all available funds are used effectively for current needs while maintaining long-term fiscal health.

Chair Rose discussed the difference between the KDE-mandated budget format and operational realities, explaining that while KDE requires budgeting for all approved positions, in practice some vacancies are known to remain unfilled. He described the importance of communicating this distinction clearly so that board members and the public understand the context behind formal budget documents.

Vice Chair Craig emphasized that clear public messaging is essential so that budget presentations showing expenditures exceeding revenues are not mistaken for signs of fiscal instability. Dr. Yearwood and Mr. Muns agreed on the importance of coordinated communication to ensure clarity and consistency in public explanations.

Board Member Everett expressed concern about assuming large vacancy savings as a budgetary mechanism. Mr. Muns responded that vacancy rates have already decreased significantly due to stronger recruitment and onboarding efforts and that the FY 2026 forecast assumes more conservative vacancy estimates.

Cash Management and Liquidity Discussion

Chair Rose introduced discussion on the district’s cash-flow management and language used to describe it. He referred to “the I-word” and commented that public references to insolvency were misplaced.

Mr. Muns explained that JCPS's investment and cash-management practices involve periodically selling and repurchasing marketable securities between July and November, the period before property-tax collections, to maintain liquidity. He emphasized that this is routine for large public entities and does not indicate financial distress.

Historically, JCPS maintained a \$50 million line of credit, which was suspended during the ESSER period due to unusually high cash balances. Finance is now considering reinstating that line for FY 2026.

Chair Rose and Mr. Muns agreed that clear terminology in communications is vital. The district has never been unable to meet its obligations, and careful explanation of cash-flow management helps ensure transparency without confusion.

FY 2025 Audited Financial Statements – Presentation by Cecil Comstock, Executive Administrator of Accounting

Mr. Comstock presented the Annual Comprehensive Financial Report (ACFR) for FY 2025. The report consists of:

1. Introductory Section – Includes the letter of transmittal, overview of district operations, and confirmation that JCPS again earned the Certificate of Achievement for Excellence in Financial Reporting (awarded annually since 2007).
2. Financial Section – Contains Management's Discussion and Analysis (MD&A), district-wide and fund-level financial statements, and extensive footnotes.
3. Statistical Section – Ten-year trends in financial and socioeconomic indicators demonstrating transparency and supporting favorable bond ratings.

Key figures highlighted:

- General Fund Revenues: \$1.5 billion, including \$651 million in property taxes.
- Expenditures: Approximately \$1.6 billion, about half in direct instruction and student support.
- FY 2025 Result: Net decrease in fund balance of \$82 million, from \$374 million to \$292 million.

Prior Period Adjustments (PPA)

Mr. Comstock and Mr. Muns described three corrections recorded as prior-period adjustments:

1. Unrecorded Liabilities – A journal entry from FY 2023 was not reversed in FY 2024 due to a staff transition.
2. Capital Asset Additions – \$5.7 million in property purchases not previously captured in the capital asset system.
3. Revenue Misclassification – A minor posting error between funds.

Mr. Muns noted that while such adjustments occur periodically, they were addressed promptly and do not indicate systemic issues.

ARMAC Vice Chair Mitchell asked whether additional controls were implemented or recommended by external auditors. Mr. Muns stated the issues were identified and addressed internally; no auditor recommendations were requested or provided during this discussion. Mr. Comstock explained that said Finance uses an application with a checklist where tasks workflow to a supervisor for review and approval of each reconciliation and that the items tied to the PPA issues have now been added. Vice Chair Mitchell suggested adding periodic peer/spot reviews of reconciliations.

External Audit Report – LBMC

Ms. Megan Reynolds, Shareholder with LBMC, presented the independent auditor’s report and confirmed that JCPS will receive an unmodified (“clean”) audit opinion for FY 2025.

LBMC conducted audits in accordance with GAAS, Government Auditing Standards, and Kentucky’s School District Audit Guide. The engagement also included audits of:

- The School Activity Funds for all schools, and
- The Single Audit under federal Uniform Guidance.

LBMC reported no material weaknesses and acknowledged the Finance team for timely responses and cooperation. Final issuance will follow completion of routine final review procedures.

Internal Audit Update – May Porter, Director of Internal Audit

Ms. Porter summarized current Internal Audit activities:

- Vendor Performance Audit – Assessing verification of vendor deliverables and monitoring of professional-service contracts.
- Monthly Student Activity Fund Verifications – Ongoing for all 148 schools.
- Investigations and Hotline Activity – Continuing oversight of allegations and corrective action follow-up.

Adjournment

Chair Rose thanked participants for their collaboration and acknowledged the attendance of Board Members Craig and Everett. The meeting adjourned at 3:48 p.m.

Highlights and Key Takeaways

1. Budget Realignment and FY 2026 Planning
 - Approximately \$132 million in reductions are being finalized through a Cabinet-led process emphasizing vacancy management and right-sizing of programs.
 - Staff and parent surveys will inform prioritization of reductions.
2. External Assessments
 - Plante Moran Fiscal Administration Review (root-cause analysis) is underway and expected to extend into 2026.
 - Forecast Verification Engagement aims to validate JCPS’s multiyear forecasting tool, with results anticipated by mid-December 2025.
3. Budget Terminology and Messaging
 - JCPS plans to present a responsible rather than technically balanced budget in January.
 - KDE’s format requires budgeting for all positions; actual spending typically runs lower due to vacancies and timing.

- Clear, coordinated messaging is essential to prevent misinterpretation of budget documents showing expenditures exceeding revenues.

4. Liquidity and Cash Management

- Finance described selling and repurchasing investments during the July–November low-cash period as a routine liquidity tool previously used by JCPS
- Reinstatement of a \$50 million line of credit is being considered.

5. FY 2025 Audited Financial Statements

- General Fund: \$1.5 billion in revenues; \$1.6 billion in expenditures; fund balance declined by \$82 million to \$292 million.
- Prior Period Adjustments: Technical corrections for unreversed liabilities, asset recording, and fund posting. These are routine and non-recurring.
- Implementation of GASB 101 (Compensated Absences) and GASB 102 (Risk Disclosures) had no material impact.
- Finance has strengthened reconciliation controls and added supervisory steps.

6. External Audit (LBMC)

- JCPS will receive an unmodified audit opinion; no material weaknesses were identified.
- School Activity Fund audits also progressing without exception.

7. Internal Audit Activities

- Vendor Performance Audit and monthly Student Activity Fund verifications continue.
- Hotline and investigation monitoring ongoing.
- Coordination continues with external assessments to avoid overlap and ensure comprehensive risk coverage.