

ADAIR COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2013

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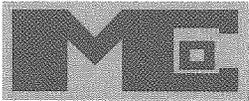
INDEPENDENT AUDITOR'S REPORT

CONTENTS

Independent Auditor’s Report	1
Management’s Discussion and Analysis (MD&A) (Unaudited)	4
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities.....	14
Statement of Net Position – Proprietary Fund.....	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund.....	16
Statement of Cash Flows – Proprietary Fund.....	17
Statement of Net Position – Fiduciary Fund.....	18
Notes to Basic Financial Statements	19

Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	37
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Funds	38
Statement of Receipts, Disbursements, and Due to Student Groups – Elementary and Middle School Activity Funds	39
Statement of Receipts, Disbursements, and Due to Student Groups – Adair County High School Activity Funds.....	40
Schedule of Expenditures of Federal Awards.....	44
Notes to Schedule of Expenditures of Federal Awards	46
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	49
Schedule of Findings and Questioned Costs.....	52
Schedule of Prior Year Audit Findings.....	54
Independent Auditor’s Transmittal Letter for Management Letter Comments	55
Management Letter Comments	56
Statement of Certification	61



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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Adair County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 4 through 8, and 37 through 38, respectively, 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 accompanying schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, 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.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2013

ADAIR COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2013

The Adair County Board of Education offers the following narrative of the financial statements for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit reports.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the Governmental funds was \$5,359,771 which includes General Fund balance of \$1,353,578, Facility Support (FSPK) of \$577, Capital Outlay of \$265, and Construction of \$4,005,351.
- The General Fund had \$19,667,619 in revenue, which primarily consisted of the State program (SEEK), property, utilities, and motor vehicle taxes.
- The District is about to finish the work on a new Elementary School to house grades Kindergarten through Second grade and should be ready for students in the 2013-14 Fiscal Year.
- The District is upgrading an old School Bus to house a mobile classroom for the Gifted and talented program.
- The District received a Race to the Top Grant to help our students achieve success and change the way instruction is delivered through flipped classrooms, incorporation of Covey's seven principals of highly effective teams, and five years of career coaching and data analysis teams.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

The government-wide financial statements are designed to provide an overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities. The increases or decreases in assets and liabilities over time will be helpful in determining the financial status of the District.

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure compliance with financial and legal requirements. All of the District's funds are divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are to be set up to help aid in supporting students and teachers in the education process. The proprietary funds are our school food service operations. All other activities of the District are considered as governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

The notes provide additional information to the understanding of the data provided within our financial statements. The notes for the financial statements can be found on pages 19 through 36 of this report.

Total Assets	\$ 38,148,369
Deferred Outflows of Resources	\$ 824,858
Total Liabilities	\$ 31,299,957
Total Net Position	\$ 7,673,270

Comments on Budget Comparisons

- The District's 2013 revenues were \$24,936,058.
- The District's 2013 total expenditures were \$35,134,713.
- The District's Financing from other sources were \$12,550,260.
- The fund balance at the end of the 2013 fiscal year for the General Fund was \$1,517,903. This is approximately a 6% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2013.

Revenues	
Local revenue	\$ 4,302,823
State and Federal revenue	<u>15,364,796</u>

Total revenues \$ 19,667,619

Expenditures

Instruction	12,434,046
Student support services	737,134
Instructional staff support services	556,938
District administration	683,322
School administration	1,114,044
Business support services	337,257
Plant and operations and maintenance	1,886,293
Student transportation	1,787,386
Debt service	<u>175,001</u>

Total expenditures 19,711,421

Deficit of revenues under expenditures \$ (43,802)

Total Governmental Funds

Total Revenue	\$ 24,936,058
Total Expenses	35,134,713
Total Other Financing Sources	<u>12,550,260</u>

Excess of revenues over expenditures \$ 2,351,605

Grant (Fund II) Information

The following is a list of major Grants and the amount that were received during the 2013 fiscal year.

State Grants

KECSAC	\$ 241,288
Extended School Services	28,627
Family Resource Centers	222,631
Gifted and Talented	39,290
Kera-Preschool	243,753
Professional Development	10,038
Textbooks	20,000
School Safety	15,624
KY ASAP	14,600
KETS	116,968

Federal Grants

Title I	\$ 1,089,913
Migrant	139,544

Federal Grants (continued)

Title I-Part D	\$ 20,460
Title I – Part D Subpart 2	65,942
Idea B Basic	534,461
Idea B Preschool	24,633
Vocational Education	35,025
Rural and Low Income	47,961
Title II – Quality Teacher	186,610
21 st Century	150,000

Local Grants

WHAS Grant	\$ 20,000
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The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

The Vocational Funds are allocated between the Business Department, the Vocational Ag. Department, the Technology Department, and the Home Ec. Department at the Adair County High School. These funds were used for equipment, computers, and travel for the teachers.

The IDEA B, IDEA B Preschool, and KERA Preschool funds are generated on the December 1 child count. These funds are used for salaries, supplies, special equipment, professional development, consultant fees, and travel expenses.

The Title II – Quality Teacher Grant was incorporated with the Title I funds to help student achievement at all levels from elementary school to the high school.

The WHAS Grant funds were used to buy iPads for our special needs students.

The KECSAC funds are used at the Adair County Youth Development Center. These funds are used for salaries for teachers and supplies for the students housed at that facility.

The 21st Century funds are used at Col. William Casey and the Adair County Elementary after school programs that help to make those students more rounded.

School Food Services Fund

Food Service Operating Revenue:	
Lunch Sales	\$ 415,219
Federal Grants	1,024,615
State Grants	174,798
Interest	3,597
Donated Commodities	60,295
Loss of Assets	<u>(9,208)</u>
Total	<u>\$ 1,494,518</u>
Total Expenses:	
Salaries, wages and benefits	\$ 791,338
Supplies	867,750
Contract services	21,306
Depreciation	<u>37,339</u>
Total	<u>\$ 1,687,733</u>
Net assets as of June 30, 2013	<u>\$ 385,990</u>

If you have any questions, please contact the Superintendent or Finance Director at (270) 384-2476, or 1204 Greensburg Street, Columbia, Kentucky 42728.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 5,359,771	\$ 241,774	\$ 5,601,545
Receivables:			
Taxes	173,827	-	173,827
Other	62,618	-	62,618
Intergovernmental – State	3,725	-	3,725
Intergovernmental – Federal	308,794	-	308,794
Net capital assets	<u>31,853,644</u>	<u>144,216</u>	<u>31,997,860</u>
Total assets	37,762,379	385,990	38,148,369
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	824,858	-	824,858
LIABILITIES			
Accounts payable	1,038,320	-	1,038,320
Unearned revenue	160,343	-	160,343
Current maturities of bond obligations	1,579,334	-	1,579,334
Current portion of accumulated sick leave	181,998	-	181,998
Interest payable	415,458	-	415,458
Noncurrent maturities of bond obligations	26,930,727	-	26,930,727
Noncurrent portion of accumulated sick leave	727,977	-	727,977
Accrued insurance claims liability	<u>265,800</u>	<u>-</u>	<u>265,800</u>
Total liabilities	<u>31,299,957</u>	<u>-</u>	<u>31,299,957</u>
NET POSITION			
Invested in capital assets, net of related debt	2,928,125	144,216	3,072,341
Restricted for:			
Capital expenditures/debt service	3,010,171	-	3,010,171
Unrestricted	<u>1,348,984</u>	<u>241,774</u>	<u>1,590,758</u>
Total net position	<u>\$ 7,287,280</u>	<u>\$ 385,990</u>	<u>\$ 7,673,270</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year ended June 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
Governmental activities							
Instruction	\$ 15,577,801	\$ -	\$ 5,661,971	\$ -	\$ (9,915,830)	\$ -	\$ (9,915,830)
Student support services	749,471	-	151,699	-	(597,772)	-	(597,772)
Instructional staff support services	772,387	-	363,521	-	(408,866)	-	(408,866)
District administration	700,025	-	118,946	-	(581,079)	-	(581,079)
School administration	1,118,531	-	200,395	-	(918,136)	-	(918,136)
Business support services	338,759	-	51,321	-	(287,438)	-	(287,438)
Plant operations and maintenance	2,282,151	-	390,000	-	(1,892,151)	-	(1,892,151)
Student transportation	1,959,524	-	354,090	-	(1,605,434)	-	(1,605,434)
Community services	224,019	-	274,734	-	50,715	-	50,715
Interest	1,051,230	-	-	1,051,230	-	-	-
Bond issue costs	228,584	-	-	-	(228,584)	-	(228,584)
Total governmental activities	25,002,482	-	7,566,677	1,051,230	(16,384,575)	-	(16,384,575)
Business-type activities							
Food service	1,687,733	415,219	1,259,708	-	-	(12,806)	(12,806)
Total business-type activities	1,687,733	415,219	1,259,708	-	-	(12,806)	(12,806)
Total primary government	<u>\$ 26,690,215</u>	<u>\$ 415,219</u>	<u>\$ 8,826,385</u>	<u>\$ 1,051,230</u>	(16,384,575)	(12,806)	(16,397,381)
			General revenues				
			Taxes:				
			Property		3,077,624	-	3,077,624
			Motor vehicle		466,566	-	466,566
			Utilities		977,691	-	977,691
			Earnings on investments		201,424	-	201,424
			State grants		11,475,129	-	11,475,129
			Federal grants		28,516	-	28,516
			Other local amounts		91,201	3,597	94,798
			Loss on disposals of capital assets		(169,956)	(9,208)	(179,164)
			Total general revenues		16,148,195	(5,611)	16,142,584
			Change in net position		(236,380)	(18,417)	(254,797)
			Net position as of July 1, 2012, as previously reported		7,627,701	404,407	8,032,108
			Change in accounting principal		(104,041)	-	(104,041)
			Net position as of July 1, 2012, as restated		7,523,660	404,407	7,928,067
			Net position as of June 30, 2013		<u>\$ 7,287,280</u>	<u>\$ 385,990</u>	<u>\$ 7,673,270</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>SEEK Capital Outlay Fund</u>	<u>Facility Support Program (FSPK) Fund</u>	<u>School Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS							
Cash	\$ 1,353,578	\$ -	\$ 265	\$ 577	\$ 4,005,351	\$ -	\$ 5,359,771
Receivables:							
Taxes	173,827	-	-	-	-	-	173,827
Other	62,618	-	-	-	-	-	62,618
Intergovernmental							
– State	-	3,725	-	-	-	-	3,725
– Federal	-	308,794	-	-	-	-	308,794
Due from Special Revenue Funds	<u>152,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,176</u>
Total assets	<u>\$ 1,742,199</u>	<u>\$ 312,519</u>	<u>\$ 265</u>	<u>\$ 577</u>	<u>\$ 4,005,351</u>	<u>\$ -</u>	<u>\$ 6,060,911</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 42,298	\$ -	\$ -	\$ -	\$ 996,022	\$ -	\$ 1,038,320
Due to General Fund	-	152,176	-	-	-	-	152,176
Unearned revenue	-	160,343	-	-	-	-	160,343
Current portion of accumulated sick leave	<u>181,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>181,998</u>
Total liabilities	224,296	312,519	-	-	996,022	-	1,532,837
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	3,009,329	-	3,009,329
Capital expenditures/ debt service	-	-	265	577	-	-	842
Unassigned	<u>1,517,903</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,517,903</u>
Total fund balances	<u>1,517,903</u>	<u>-</u>	<u>265</u>	<u>577</u>	<u>3,009,329</u>	<u>-</u>	<u>4,528,074</u>
Total liabilities and fund balances	<u>\$ 1,742,199</u>	<u>\$ 312,519</u>	<u>\$ 265</u>	<u>\$ 577</u>	<u>\$ 4,005,351</u>	<u>\$ -</u>	<u>\$ 6,060,911</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

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

June 30, 2013

Total fund balances – governmental funds	\$ 4,528,074
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$46,171,272, and the accumulated depreciation is \$14,317,628.	31,853,644
Deferred loss on bond refundings are not current financial resources and therefore are not reported as deferred outflows of resources in governmental funds.	824,858
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(28,510,061)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(727,977)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(415,458)
Accrued insurance claims liability is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(265,800)</u>
Total net position – governmental activities	<u>\$ 7,287,280</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS Year ended June 30, 2013

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,717,997	\$ -	\$ -	\$ 359,627	\$ -	\$ -	\$ 3,077,624
Motor vehicle	466,566	-	-	-	-	-	466,566
Utilities	977,691	-	-	-	-	-	977,691
Earnings on investments	49,368	2,461	2,853	2,461	144,281	-	201,424
Other local	91,201	58,897	-	-	-	-	150,098
Intergovernmental – State	15,336,280	838,082	232,166	481,974	-	769,364	17,657,866
Intergovernmental – Federal	28,516	2,376,273	-	-	-	-	2,404,789
Total revenues	19,667,619	3,275,713	235,019	844,062	144,281	769,364	24,936,058
Expenditures							
Current:							
Instruction	12,434,046	2,885,602	-	-	-	-	15,319,648
Student support services	737,134	11,844	-	-	-	-	748,978
Instructional staff support services	556,938	212,970	-	-	-	-	769,908
District administration	683,322	-	-	-	-	-	683,322
School administration	1,114,044	-	-	-	-	-	1,114,044
Business support services	337,257	-	-	-	-	-	337,257
Plant operations and maintenance	1,886,293	-	-	-	-	-	1,886,293
Student transportation	1,787,386	-	-	-	-	-	1,787,386
Community services	-	222,632	-	-	-	-	222,632
Facilities acquisition and construction	-	-	-	-	10,338,471	-	10,338,471
Debt service	175,001	-	-	-	-	1,751,773	1,926,774
Total expenditures	19,711,421	3,333,048	-	-	10,338,471	1,751,773	35,134,713
(Deficit) excess of revenues (under) over expenditures	(43,802)	(57,335)	235,019	844,062	(10,194,190)	(982,409)	(10,198,655)
Other financing sources (uses)							
Proceeds from bond issuances	-	-	-	-	12,550,260	-	12,550,260
Proceeds of refunding bonds	1,088,226	-	-	-	-	9,068,242	10,156,468
Payments to refunded bonds escrow agents	(1,088,226)	-	-	-	-	(9,068,242)	(10,156,468)
Operating transfers in	280,761	57,335	-	-	599,748	982,409	1,920,253
Operating transfers out	(259,605)	-	(599,898)	(1,026,348)	(34,402)	-	(1,920,253)
Total other financing sources (uses)	21,156	57,335	(599,898)	(1,026,348)	13,115,606	982,409	12,550,260
Net change in fund balance	(22,646)	-	(364,879)	(182,286)	2,921,416	-	2,351,605
Fund balance as of July 1, 2012	1,540,549	-	365,144	182,863	87,913	-	2,176,469
Fund balance as of June 30, 2013	\$ 1,517,903	\$ -	\$ 265	\$ 577	\$ 3,009,329	\$ -	\$ 4,528,074

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2013

Net change in total fund balances – governmental funds	\$ 2,351,605
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which capital outlays (\$10,496,040) exceed depreciation expense (\$954,992) and loss on disposals of capital assets (\$169,956) for the year.	9,371,092
Deferred loss on bond refundings are not reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds on the statement of activities.	726,302
Bond proceeds are other financing sources in the governmental fund financial statements, but are not included in the statement of activities.	(22,935,312)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	10,305,710
Insurance claims expense related to accrued insurance claims liability is recognized in the statement of activities but not in the governmental fund financial statements because it will not be paid with existing financial resources.	(265,800)
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>210,023</u>
Change in net position – governmental activities	<u>\$ (236,380)</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

June 30, 2013

	School Food Service <u>Fund</u>
ASSETS	
Current assets	
Cash	\$ <u>241,774</u>
Total current assets	241,774
Noncurrent assets	
Capital assets	703,380
Less accumulated depreciation	<u>559,164</u>
Total noncurrent assets	<u>144,216</u>
Total assets	385,990
NET POSITION	
Invested in capital assets	144,216
Unrestricted	<u>241,774</u>
Total net position	<u>\$ 385,990</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND**

Year ended June 30, 2013

	School Food Service Fund
Operating revenues	
Lunchroom sales	\$ 415,219
Operating expenses	
Salaries, wages, and benefits	761,338
Contract services	21,306
Materials and supplies	867,750
Depreciation	<u>37,339</u>
Total operating expenses	<u>1,687,733</u>
Operating loss	(1,272,514)
Nonoperating revenues	
Federal grants	1,024,615
Donated commodities	60,295
State grants	174,798
Interest income	3,597
Loss on disposals of capital assets	<u>(9,208)</u>
Total nonoperating revenues	<u>1,254,097</u>
Change in net position	(18,417)
Net position as of July 1, 2012	<u>404,407</u>
Net position as of June 30, 2013	<u>\$ 385,990</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year ended June 30, 2013

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 415,219
Cash paid to/for:	
Employees and contract services	(782,644)
Materials and supplies	<u>(807,455)</u>
Net cash used in operating activities	(1,174,880)
Cash flows from noncapital financing activities	
Government grants	<u>1,199,413</u>
Net cash provided by noncapital financing activities	1,199,413
Cash flows from investing activities	
Receipt of interest income	<u>3,597</u>
Net cash provided by investing activities	<u>3,597</u>
Net increase in cash	28,130
Cash as of July 1, 2012	<u>213,644</u>
Cash as of June 30, 2013	<u><u>\$ 241,774</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (1,272,514)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	37,339
Donated commodities	<u>60,295</u>
Net cash used in operating activities	<u><u>\$ (1,174,880)</u></u>
Schedule of non-cash transactions	
Donated commodities	\$ 60,295

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2013

	<u>Student Activity Funds</u>
ASSETS	
Cash	\$ 147,120
Accounts receivable	<u>800</u>
Total assets	147,920
LIABILITIES	
Accounts payable	3,767
Due to student groups	<u>144,153</u>
Total liabilities	<u>147,920</u>
NET POSITION	<u><u>\$ -</u></u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2013

1. Basis of presentation and summary of significant accounting policies

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

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Adair County School District Finance Corporation – The Adair County, Kentucky, Board of Education established the Adair County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Adair County Board of Education also comprise the Corporation's Board of Directors.

Government-wide financial statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District's activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The fund's principal operating revenues are food service charges. Operating expenses include food production costs, supplies and materials, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

4. The Debt Service Fund accounts for and reports expenditures for certain debt payments. This is a major fund of the District.

b. Proprietary fund type

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

c. Fiduciary fund type

The Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds*.

Budgetary process – The District’s budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund and the School Food Service Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2013.

Bond issue costs – Prior to July 1, 2012, costs associated with the issuance of bond obligations were capitalized and amortized over the related bond term on the statement of net position and activities. Effective July 1, 2012, the District adopted the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Accordingly, the District expenses bond issue costs as incurred.

Deferred loss on bond refundings – Deferred loss on bond refundings represent losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances.

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District

maintains a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2013.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2013.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. The District does not have any assigned funds as of June 30, 2013.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classifications.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, and liabilities. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds. These transactions are eliminated in the governmental and business-type activities columns of the statement of activities.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events – The District's management has evaluated subsequent events through November 11, 2013, the date which the financial statements were available for issue. No subsequent events were of such nature to require disclosure.

New accounting pronouncements – In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and in March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 63 amends previous pronouncements and incorporates deferred outflows of resources and deferred inflows of resources, as defined in Concepts Statement No. 4, *Elements of Financial Statements*, into the required components of the statement of financial position's (formerly statement of net assets) residual measure and renames that measure net position, rather than net assets. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify certain items previously classified as assets and liabilities as deferred outflows and deferred inflows of resources. Effective July 1, 2012, the District adopted GASB Statements No. 63 and 65. The adoption of GASB Statement No. 65 resulted in a \$104,041 reduction of the District's net position as of July 1, 2012 and is presented as a change in accounting principal on the accompanying statement of activities.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB Statement No. 68 replaces previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of GASB Statement No. 68 is to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. This Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statement No. 68 also provides related note disclosure and supplementary information requirements. GASB Statement No. 68 is effective for years beginning after December 15, 2014. The District has not determined the potential impact, if any, this pronouncement will have on its future financial statements.

2. Deposits with financial institutions

As of June 30, 2013, the carrying amount of the District's deposits with financial institutions was \$5,748,665, and its bank balances totaled \$7,802,699. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash amount within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
 Facility Support Program (FSPK) Fund
 School Construction Fund
 Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2013 were \$.479 per \$100 valuation for real property, \$.479 per \$100 valuation for business personal property, and \$.563 per \$100 valuation for motor vehicles.

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

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2013 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
Land	\$ 821,256	\$ -	\$ -	\$ 821,256
Buildings and improvements	30,040,220	-	2,002,516	28,037,704
Technology equipment	3,207,386	110,244	1,788,548	1,529,082
Vehicles	4,074,355	-	115,544	3,958,811
General equipment	1,039,757	12,924	149,432	903,249
Construction in progress	<u>548,298</u>	<u>10,372,872</u>	<u>-</u>	<u>10,921,170</u>
Total cost	39,731,272	10,496,040	4,056,040	46,171,272

<u>Governmental Activities</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2013</u>
Less accumulated depreciation:				
Buildings and improvements	\$ 10,238,223	\$ 624,880	\$1,879,594	\$ 8,983,509
Technology equipment	2,808,885	140,719	1,774,410	1,175,194
Vehicles	3,224,024	178,774	108,898	3,293,900
General equipment	<u>977,588</u>	<u>10,619</u>	<u>123,182</u>	<u>865,025</u>
Total accumulated depreciation	<u>17,248,720</u>	<u>954,992</u>	<u>3,886,084</u>	<u>14,317,628</u>
Governmental activities net capital assets	<u>\$ 22,482,552</u>	<u>\$ 9,541,048</u>	<u>\$ 169,956</u>	<u>\$ 31,853,644</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 876,532	\$ -	\$ 173,152	\$ 703,380
Less accumulated depreciation:				
Food service equipment	<u>685,769</u>	<u>37,339</u>	<u>163,944</u>	<u>559,164</u>
Business-type activities net capital assets	<u>\$ 190,763</u>	<u>\$ (37,339)</u>	<u>\$ 9,208</u>	<u>\$ 144,216</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 451,175
Student support services	493
Instructional staff support services	2,479
District administration	16,703
School administration	4,487
Business support services	1,502
Plant operations and maintenance	304,628
Student transportation	172,138
Community services	<u>1,387</u>
Total depreciation expense	<u>\$ 954,992</u>

During the year ended June 30, 2013, the District decided to close two schools. The schools will be demolished during the year ended June 30, 2014. As the schools were deemed worthless as of June 30, 2013, the District reported the write-off of the schools as disposals during the year ended June 30, 2013, removing \$2,002,516 from building and improvements, and \$1,879,594 of corresponding accumulated depreciation resulting in a loss on disposals of capital assets of \$122,922 on the accompanying statement of activities.

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Adair County School District Finance Corporation.

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

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2000 KISTA	\$ 505,000	4.70 – 5.80%
2002 KISTA	465,000	2.00 – 4.90%
2003 KISTA	425,000	1.50 – 4.65%
2003 KISTA	167,672	2.00 – 3.90%
2004	820,000	1.20 – 3.70%
2004 KISTA	185,310	1.00 – 3.50%
2005 KISTA	220,529	3.00 – 3.625%
2005 Energy	2,275,000	2.25 – 4.40%
2005	11,240,000	2.55 – 4.25%
2006 KISTA	256,465	3.30 – 4.00%
2006 KISTA	337,705	3.50 – 3.875%
2006 Energy	500,000	4.00 – 4.50%
2008 KISTA	239,118	3.00 – 3.75%
2009	2,530,000	2.00 – 3.25%
2010 KISTA	197,949	2.00 – 3.60%
2011 KISTA	172,266	1.00 – 4.00%
2013	12,885,000	2.00 – 3.125%
2013 KISTA	1,076,302	2.00 – 2.25%
2013	9,010,000	1.00 – 2.25%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Adair County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

During 2013, the District issued revenue refunding bonds totaling \$9,010,000 to partially defease the 2005 Energy Bond issue totaling \$1,535,000 and the 2005 issue totaling \$6,770,000. Additionally, during 2013, the District issued KISTA refunding bonds totaling \$1,076,302 to defease the 2000 KISTA issue totaling \$350,000, the 2002 KISTA issue totaling \$370,000, and the 2003 KISTA issue totaling \$335,000. These transactions will result in future cash flow savings of approximately \$795,000 and \$25,000, respectively, and an economic gain (difference between present value of the new debt service payments and the old debt service payments) of approximately \$700,000 and \$24,000, respectively. As of

June 30, 2013, the defeased portions of the 2004 and 2005 bonds are still outstanding. The 2004 bond will be retired in 2014 and the 2005 bond will be retired in 2015. As of June 30, 2013, all of the 2000, 2002, and 2003 KISTA bonds have been retired.

For the 2004, 2005, 2009, and 2013 bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2013 for debt service (principal and interest) are as follows:

Fiscal Year Ending	Adair County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2014	\$ 847,801	\$ 443,775	\$ 731,533	\$ 272,081	\$ 2,295,190
2015	867,213	421,169	742,631	252,851	2,283,864
2016	845,818	397,735	736,377	224,674	2,204,604
2017	844,616	374,919	758,379	210,131	2,188,045
2018	840,529	353,524	777,359	191,149	2,162,561
2019	836,903	334,550	792,318	176,191	2,139,962
2020	863,142	315,131	809,371	159,138	2,146,782
2021	866,928	293,257	790,143	140,758	2,091,086
2022	878,130	272,312	704,870	124,152	1,979,464
2023	905,823	251,971	720,177	108,846	1,986,817
2024	938,180	230,944	735,820	93,204	1,998,148
2025	724,750	211,252	752,250	76,771	1,765,023
2026	746,938	192,505	628,062	60,659	1,628,164
2027	831,710	170,804	237,290	49,752	1,289,556
2028	810,723	146,693	244,277	42,766	1,244,459
2029	833,283	122,033	251,717	35,326	1,242,359
2030	860,616	96,624	259,384	27,659	1,244,283
2031	882,716	70,474	267,284	19,759	1,240,233
2032	914,436	43,060	275,564	11,479	1,244,539
2033	924,353	14,443	230,647	3,604	1,173,047
	<u>\$ 17,064,608</u>	<u>\$ 4,757,175</u>	<u>\$ 11,445,453</u>	<u>\$ 2,280,950</u>	<u>\$ 35,548,186</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2013 is as follows:

<u>Issue</u>	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2013</u>
School Building				
Revenue Bonds:				
2004	\$ 250,000	\$ -	\$ 80,000	\$ 170,000
2005	9,355,000	-	7,245,000	2,110,000
2009	2,325,000	-	230,000	2,095,000
2013	-	12,885,000	-	12,885,000
2013	-	9,010,000	-	9,010,000
Energy Bonds:				
2005	1,845,000	-	1,630,000	215,000
2006	445,000	-	15,000	430,000
KISTA Bonds:				
2000	\$ 350,000	\$ -	\$ 350,000	\$ -
2002	370,000	-	370,000	-
2003	335,000	-	335,000	-
2003	15,851	-	15,851	-
2004	34,085	-	16,769	17,316
2005	65,333	-	23,826	41,507
2006	103,645	-	26,975	76,670
2006	175,390	-	34,833	140,557
2008	144,081	-	23,420	120,661
2010	155,528	-	18,525	137,003
2011	153,633	-	18,988	134,645
2013	-	1,076,302	149,600	926,702
Totals	<u>\$ 16,122,546</u>	<u>\$22,971,302</u>	<u>\$10,583,787</u>	<u>\$ 28,510,061</u>

6. Accumulated unpaid sick leave benefits

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2013 is as follows:

Balance as of July 1, 2012	\$ 972,000
Additions	228,351
Less payments	<u>290,376</u>
Balance as of June 30, 2013	909,975
Less current portion	<u>181,998</u>
Noncurrent portion	<u>\$ 727,977</u>

7. Accrued insurance claims liability

The District has previously purchased workers compensation and general liability insurance through the Kentucky School Boards Insurance Trust (KSBIT). KSBIT filed for bankruptcy. Accordingly, the participant districts are subject to KSBIT's unpaid outstanding claims. The KSBIT Board provided the District with an estimate of the District's potential share of the loss (approximately \$337,000 highest estimate), and an estimate of the District's most likely loss (approximately \$265,800). The District has accrued the most likely loss on the accompanying statement of net position but could be exposed to additional liability if the KSBIT Board estimate is understated.

8. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2013 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

During the year ended June 30, 2013, the District resolved a potential lawsuit with a former employee.

9. Retirement plans

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members who participated in a state retirement system before July 1, 2008, and 14.105% of salaries for members who started their account on or after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

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

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

In order to fund the post-employment healthcare benefit, active member contributions are matched by the State at 0.75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees, as described in the plan description, and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1% of members' salaries for the 2012-2013 fiscal year.

The District's total payroll was \$14,336,686, \$14,804,840, and \$15,141,675 for the years ended June 30, 2013, 2012, and 2011, respectively. The payroll for employees covered under KTRS was \$11,360,992, \$11,353,437, and \$11,635,105, for the years ended June 30, 2013, 2012, and 2011, respectively. The Commonwealth contributed \$1,394,719, \$1,187,491, and \$1,272,503 to KTRS for the years ended June 30, 2013, 2012, and 2011, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$296,869, \$313,719, and \$333,079 for the years ended June 30, 2013, 2012, and 2011, respectively, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death, disability, and health benefits to members and their beneficiaries. Under KRS provisions, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan members are required to contribute 5% of their annual covered compensation if hired before September 1, 2008, or 6% of their annual covered compensation if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 19.55% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012, and 2011 were \$580,110, \$592,930, and \$550,517, respectively, and are equal to the required contribution for the related year.

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$134,000 during the year ended June 30, 2013. The District does not contribute to these plans.

10. On-behalf payments for fringe benefits

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on

the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 1,394,719
Health and life insurance	<u>2,898,706</u>
Total	<u>\$ 4,293,425</u>

11. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. However, the District has potential exposure for claims in excess of commercial insurance coverage as explained in Note 7.

12. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the General Fund, SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, and the School Food Service Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

13. COBRA

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

14. Transfer of funds

The following transfers were made during the year ended June 30, 2013:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 22,933
Operating	General	Construction	Construction	34,401
Operating	General	Debt Service	Debt Service	202,271
Operating	Capital Outlay	General	Administrative	280,761
Operating	Capital Outlay	Debt Service	Debt Service	17,042
Operating	Capital Outlay	Construction	Construction	302,095
Operating	FSPK	Construction	Construction	263,252
Operating	FSPK	Debt Service	Debt Service	763,096
Matching	Construction	Special Revenue	Matching	34,402

15. Interfund receivables and payables

Interfund balances as of June 30, 2013 consist of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Cash Flow	\$ 152,176

SUPPLEMENTARY INFORMATION

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,395,000	\$ 2,585,000	\$ 2,717,997	\$ 132,997
Motor vehicle	441,185	441,185	466,566	25,381
Utilities	850,000	850,000	977,691	127,691
Earnings on investments	15,000	15,000	49,368	34,368
Other local	12,000	12,000	91,201	79,201
Intergovernmental – State	10,894,500	10,904,612	15,336,280	4,431,668
Intergovernmental – Federal	<u>20,000</u>	<u>20,000</u>	<u>28,516</u>	<u>8,516</u>
Total revenues	14,627,685	14,827,797	19,667,619	4,839,822
Expenditures				
Current:				
Instruction	8,778,809	9,326,832	12,434,046	(3,107,214)
Student support services	580,541	580,786	737,134	(156,348)
Instructional staff support services	431,906	437,247	556,938	(119,691)
District administration	582,255	623,588	683,322	(59,734)
School administration	936,188	902,718	1,114,044	(211,326)
Business support services	213,877	223,458	337,257	(113,799)
Plant operations and maintenance	1,534,270	1,528,188	1,886,293	(358,105)
Student transportation	1,529,953	1,599,098	1,787,386	(188,288)
Contingency	735,704	768,517	-	768,517
Debt service	<u>409,793</u>	<u>-</u>	<u>1,263,227</u>	<u>(1,263,227)</u>
Total expenditures	<u>15,733,296</u>	<u>15,990,432</u>	<u>20,799,647</u>	<u>(4,809,215)</u>
(Deficit) excess of revenues (under) over expenditures	(1,105,611)	(1,162,635)	(1,132,028)	30,607
Other financing sources (uses)				
Proceeds from bond issuances	-	-	1,088,226	1,088,226
Operating transfers in	56,274	66,829	280,761	213,932
Operating transfers out	<u>(50,663)</u>	<u>(444,194)</u>	<u>(259,605)</u>	<u>184,589</u>
Total other financing sources (uses)	<u>5,611</u>	<u>(377,365)</u>	<u>1,109,382</u>	<u>1,486,747</u>
Net change in fund balance	(1,100,000)	(1,540,000)	(22,646)	1,517,354
Fund balance as of July 1, 2012	<u>1,540,549</u>	<u>1,540,549</u>	<u>1,540,549</u>	<u>-</u>
Fund balance as of June 30, 2013	<u>\$ 440,549</u>	<u>\$ 549</u>	<u>\$ 1,517,903</u>	<u>\$ 1,517,354</u>

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS**

Year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 2,461	\$ 2,461
Other local	53,300	45,800	58,897	13,097
Intergovernmental – State	1,296,366	968,918	838,082	(130,836)
Intergovernmental – Federal	<u>2,304,143</u>	<u>2,591,808</u>	<u>2,376,273</u>	<u>(215,535)</u>
Total revenues	3,653,809	3,606,526	3,275,713	(330,813)
Expenditures				
Current:				
Instruction	3,045,828	3,055,055	2,885,602	169,453
Student support services	11,473	10,920	11,844	(924)
Instructional staff support services	428,567	352,321	212,970	139,351
Community services	<u>218,604</u>	<u>222,632</u>	<u>222,632</u>	<u>-</u>
Total expenditures	<u>3,704,472</u>	<u>3,640,928</u>	<u>3,333,048</u>	<u>307,880</u>
(Deficit) excess of revenues (under) over expenditures	(50,663)	(34,402)	(57,335)	(22,933)
Other financing sources				
Operating transfers in	<u>50,663</u>	<u>34,402</u>	<u>57,335</u>	<u>22,933</u>
Total other financing sources	<u>50,663</u>	<u>34,402</u>	<u>57,335</u>	<u>22,933</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2013	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year ended June 30, 2013**

<u>School</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
Colonel Wm Casey Elementary School	\$ 18,256	\$ 75,585	\$ 73,162	\$ 20,679	\$ -	\$ 2,589	\$ 18,090
Adair County Elementary School	30,658	78,712	83,801	25,569	-	-	25,569
John Adair Intermediate School	20,624	42,375	43,943	19,056	800	-	19,856
Adair County Middle School	<u>23,077</u>	<u>115,815</u>	<u>113,354</u>	<u>25,538</u>	<u>-</u>	<u>-</u>	<u>25,538</u>
Totals	<u>\$ 92,615</u>	<u>\$ 312,487</u>	<u>\$ 314,260</u>	<u>\$ 90,842</u>	<u>\$ 800</u>	<u>\$ 2,589</u>	<u>\$ 89,053</u>

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS
 Year ended June 30, 2013**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2013</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2013</u>
ACHS Classroom	\$ 401	\$ -	\$ -	\$ 401	\$ -	\$ -	\$ 401
Anatomy	-	226	226	-	-	-	-
Art	45	95	61	79	-	-	79
Athletics	7,474	82,820	79,345	10,949	-	1,095	9,854
Beta Club	11	3,034	2,238	807	-	-	807
Boy's basketball	181	-	-	181	-	-	181
Business co-op	506	43	43	506	-	-	506
Career Awareness	741	-	741	-	-	-	-
Champions and SADD	617	-	-	617	-	-	617
Cheerleaders	545	1,829	2,139	235	-	-	235
Chemistry	106	-	-	106	-	-	106
Class 2011	104	-	104	-	-	-	-
Class 2012	1,311	-	1,311	-	-	-	-
Class 2013	1,233	6,486	7,719	-	-	-	-
Class 2014	422	10,317	10,381	358	-	-	358
Class 2015	-	491	-	491	-	-	491
Class 2016	-	3,519	228	3,291	-	-	3,291
Class 2017	-	1,912	-	1,912	-	-	1,912

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2013**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2013</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2013</u>
Counselors office	\$ 258	\$ 300	\$ 317	\$ 241	\$ -	\$ -	\$ 241
Criminal records check	-	140	140	-	-	-	-
Drama	1,010	2,144	1,537	1,617	-	-	1,617
Earth Science	73	-	-	73	-	-	73
England's Excep Ed	567	36	348	255	-	-	255
English activities	279	175	61	393	-	-	393
FBLA	2,216	8,270	7,636	2,850	-	-	2,850
FCA	-	1,297	1,291	6	-	-	6
FCCLA	788	2,491	1,851	1,428	-	-	1,428
FFA	2,248	32,591	34,839	-	-	-	-
FFA Banquet	1,392	10,490	11,882	-	-	-	-
FFA Shop	1,580	4,654	6,191	43	-	-	43
Football	2	-	2	-	-	-	-
FSL Club	200	-	-	200	-	-	200
Fund for the Arts	681	1,855	2,500	36	-	-	36
Garden Friends – S. Willis	196	734	906	24	-	-	24
General	180	2,953	2,821	312	-	-	312
Girl's softball	67	-	-	67	-	-	67

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2013**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2013</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2013</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2013</u>
Godsey's Physics	\$ 564	\$ 551	\$ 498	\$ 617	\$ -	\$ -	\$ 617
GRREC Grant Funds	-	782	782	-	-	-	-
Horticulture	7,669	9,130	8,689	8,110	-	-	8,110
Indian Academy	6,768	-	1,992	4,776	-	-	4,776
Journalism and newspaper	12,437	16,974	29,411	-	-	-	-
Lady Indians	748	-	748	-	-	-	-
Language	249	-	17	232	-	-	232
Library	554	183	199	538	-	-	538
Lost and damaged books	13	-	-	13	-	-	13
Math	600	-	-	600	-	-	600
NAHS – Fine Arts	618	2,633	1,692	1,559	-	-	1,559
National Honor Society	1,011	1,743	1,999	755	-	-	755
Office workers	1,706	9,505	9,224	1,987	-	-	1,987
Peck Soc. Studies	11	-	-	11	-	-	11
Pep	92	938	967	63	-	-	63
Reliford's "A" Team	4,182	1,448	3,858	1,772	-	-	1,772
Science Club	136	210	92	254	-	-	254
STLP	-	140	-	140	-	-	140

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2013**

<u>Activity Fund</u>	<u>Cash July 1, 2012</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2013</u>	<u>Accounts Receivable June 30, 2013</u>	<u>Accounts Payable June 30, 2013</u>	<u>Due to Student Groups June 30, 2013</u>
Student Coke	\$ 205	\$ 6,913	\$ 6,073	\$ 1,045	\$ -	\$ -	\$ 1,045
Student parking	2,007	1,454	2,297	1,164	-	-	1,164
Teachers lounge Coke	2,214	3,922	3,478	2,658	-	83	2,575
Tennis	1,223	195	68	1,350	-	-	1,350
Testing	587	527	548	566	-	-	566
Track	530	2,448	2,453	525	-	-	525
Transportation	2,499	18,110	20,609	-	-	-	-
Volleyball	206	6,683	6,824	65	-	-	65
Totals	72,263	263,391	279,376	56,278	-	1,178	55,100
Interfund transfers	-	15,273	15,273	-	-	-	-
Totals	<u>\$ 72,263</u>	<u>\$ 248,118</u>	<u>\$ 264,103</u>	<u>\$ 56,278</u>	<u>\$ -</u>	<u>\$ 1,178</u>	<u>\$ 55,100</u>

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100202-11	\$ 32,494
		3100102-12	62,034
		3100102-11	11,172
		3100002-12	1,115,556
		3100002-11	<u>233,595</u>
Subtotal			1,454,851
Neglected and Delinquent Children	84.013	3133T	1,866
		3133	<u>18,658</u>
Subtotal			20,524
Migrant Education	84.011	3110002-12	89,641
		3110002-11	<u>21,338</u>
Subtotal			110,979
Special Education	84.027	3810002-12	251,465
		3810002-11	<u>256,603</u>
Subtotal			508,068
Vocational Education Basic	84.048	4621132-12	28,680
Special Education Preschool	84.173	3800002-11	13,613
Rural Education	84.358	3140002-12	47,162
Improving Teacher Quality	84.367	3230002-11	67
Adult Education	84.002	3731S	60
21 st Century Community Learning Centers	84.287	3400002-12	22,025
		3400002-11	69,554
		3400002-10	<u>9,121</u>
Subtotal			100,700

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
School Improvement Grants	84.377	3100302-09	\$ 50,000
Race to the Top	84.416	3960002-11	23,534
Education Jobs Fund*	84.410	EJOB00-10	<u>18,365</u>
Total U.S. Department of Education			2,376,603
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-13 7750002-12	588,870 <u>142,241</u>
Subtotal			731,111
National School Breakfast Program	10.553	7760005-13 7760005-12	236,452 <u>57,052</u>
Subtotal			293,504
Total U.S. Department of Agriculture			<u>1,024,615</u>
Total cash expenditures			3,401,218
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555	Not provided	<u>60,295</u>
Total federal expenditures			<u>\$ 3,461,513</u>

* American Recovery and Reinvestment Act (ARRA) funds

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Adair County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

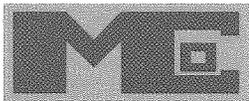
2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. The donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Program clusters

The following programs are considered clusters and are considered in the aggregate for consideration of major program determination:

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Special Education	84.027/84.173	\$ 521,681
Child Nutrition	10.555/10.553	1,084,910



**MATHER
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SOLUTION-DRIVEN CPAs and Business Advisors

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

We have audited, in accordance with the 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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Adair County School District (District), as of and for the year ended June 30, 2013, 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 11, 2013.

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 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II to the Independent Auditor's Contract – State Audit Requirements*.

We noted certain other matters that we reported to the District's management in a separate letter dated November 11, 2013.

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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2013

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Adair County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular

A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2013

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued		Unqualified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Noncompliance material to financial statement notes	_____	Yes	<u>✓</u> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<u>✓</u> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<u>✓</u> None reported
Type of auditor’s report issued on compliance for major programs		Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_____	Yes	<u>✓</u> No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.555/10.553	Child Nutrition

Dollar threshold used to distinguish between Type A and Type B program	\$	300,000	
Auditee qualified as low risk	<u>✓</u>	Yes	_____ No

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2013

Section II – Financial Statement Findings

No matters to report.

Section III – Federal Award Findings

No matters to report.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2013

There were no prior year audit findings.



**MATHER
& COMPANY**

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Members of the Board of Education
Adair County School District
Columbia, Kentucky

In planning and performing our audit of the basic financial statements of the Adair County School District (District) as of and for the year ended June 30, 2013, 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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, we considered the District's internal control over financial reporting and compliance as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting or compliance. Accordingly, we do not express an opinion on the District's internal control over reporting and compliance.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 11, 2013 on the District's basic financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 11, 2013

ADAIR COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2013**

CONTENTS

General Comments	58
Elementary, Middle, and High School Activity Funds	59
Other Issues Relating to Internal Controls and General Accounting Procedures.....	60

GENERAL COMMENTS

The Finance Department personnel were helpful in retrieving any information we needed while conducting our audit. Segregation and accounting for the various fund groups appears to be consistent with guidelines established by the Kentucky Department of Education and other funding agencies.

The State Board for Elementary and Secondary Education has a uniform program of accounting for school activity funds in Kentucky schools. The uniform program is documented in a handbook entitled *Accounting Procedures for Kentucky School Activity Funds* (the Redbook). Each school's activity funds were tested for compliance with the Redbook. Any findings have been documented as current year comments.

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

COLONEL WILLIAM CASEY ELEMENTARY SCHOOL

Prior year comment: We noted two instances where the signed cash receipt did not agree to the amount of the cash deposit. Redbook stipulates that there must be proper reconciliation of cash on hand to cash receipts.

Current year follow-up: There were no such instances noted in the current year.

ADAIR COUNTY HIGH SCHOOL

Prior year comment: We noted an inappropriate time lapse between the payment of certain athletic vendor invoices and the allocation of certain travel costs to clubs, and the time the actual event took place. Redbook stipulates that invoices are paid on a timely basis.

Current year follow-up: There were no such instances noted in the current year.

Current Year Finding

COLONEL WILLIAM CASEY ELEMENTARY SCHOOL

Statement of deficiency: During testing, we noted a check written to pay an employee.

Criteria for the deficiency: This is not in conformity with Redbook guidelines.

Cause of the deficiency: Bookkeeper was not aware of Redbook guideline.

Effect of the deficiency: This deficiency is in violation of Redbook guidelines, and the payment was omitted from the employee's W-2 and was not subjected to payroll withholding.

Recommendation for correction: We recommend all expenditures for personnel be paid from the District's allocated funds and not the student activity funds. We further recommend the District consider amending the employee's W-2.

Board response: The Principal and School Bookkeeper have been made aware that all employees full-time and part-time must be paid through the Payroll Office at the Board of Education. They have also been made aware that the School Activity Funds should be used to benefit the students.

OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES

Follow-up on Prior Year Finding

There were no prior year findings.

Current Year Finding

Statement of deficiency: During payroll testing we noted one employee's years of experience were not updated correctly.

Criteria for the deficiency: This is not in compliance with District policy.

Cause of the deficiency: This appears to be an oversight by the accounting department.

Effect of the deficiency: While the employee was paid the correct salary in 2013, it is possible the employee could be paid an incorrect amount in future periods if the error is not corrected.

Recommendation for correction: We recommend the employee be paid according to the salary schedule and have noted the correction has already been made in fiscal 2014.

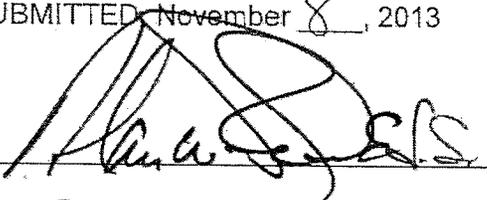
Board response: In the previous fiscal year this employee was paid through a Grant in which the Salary was not tied to a salary table. In the 2012-13 year the employee was transferred to a position that is tied to a salary schedule but her years of experience was not correct. The years have been corrected and will be updated automatically by the computer since she is now tied to a salary table in MUNIS.

STATEMENT OF CERTIFICATION

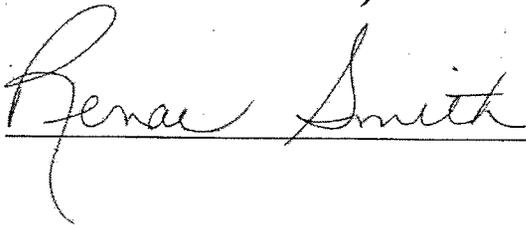
State Committee for School District Audits
Frankfort, Kentucky

The Adair County School District certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED November 8, 2013



Superintendent



Finance Officer
