

**CLAY COUNTY SCHOOL DISTRICT**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2013**  
**with**  
**REPORT OF INDEPENDENT AUDITORS**

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**INDEPENDENT AUDITOR'S REPORT**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Clay County School District  
Manchester, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County School 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, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Clay 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.

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Clay County School District's basic financial statements as a whole. The combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The management's discussion and analysis and the budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 11, 2013, on our consideration of Clay County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clay County School District's internal control over financial reporting and compliance.

***Cloyd & Associates, PSC***

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2013

As management of the Clay County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

### **FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$4,660,050 including both governmental and proprietary funds, in 2013 and \$3,349,672 in 2012. The increase is primarily due to decreasing expenditures and increase in investments.
- The Board continued to make a priority of funding competitive salaries for teachers for recruitment and retention consistent with a goal of improvement of student achievement. To meet this goal the Board and District's management aggressively sought ways to increase starting teacher salaries. However, the beginning Rank III teacher's salary remained \$34,017 per year. The District continues to work towards higher starting salaries.
- The General Fund had \$26,258,354 in revenue, which primarily consisted of the state program (SEEK), property taxes, local occupational license taxes, utility taxes, and motor vehicle taxes. There was \$25,961,428 in General Fund expenditures and net revenues of \$538,680 from other sources.
- The Board issued a refunding bond issue in the current year and overall principal of long-term debt decreased by \$590,000.

### **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. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues expenses and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions 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 statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 36 of this report.

#### **GOVERNMENT WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$16,377,256; proprietary assets exceeded liabilities by \$722,373 and total assets exceeded liabilities by \$17,099,629 at June 30, 2013.

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

**CLAY COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED**  
**Year ended June 30, 2013**

**The School District as a Whole**

The following is a summary of the District's net assets

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,421,904	\$ 4,606,581	\$ 354,277	\$ 163,836	\$ 5,776,181	\$ 4,770,417
Capital assets, net of depreciation	26,829,791	27,533,225	368,096	385,842	27,197,887	27,919,067
<b>Total Assets</b>	<b>32,251,695</b>	<b>32,139,806</b>	<b>722,373</b>	<b>549,678</b>	<b>32,974,068</b>	<b>32,689,484</b>
Current liabilities	1,467,243	1,423,263	-	-	1,467,243	1,423,263
Other liabilities	14,407,196	14,723,008	-	-	14,407,196	14,723,008
<b>Total Liabilities</b>	<b>15,874,439</b>	<b>16,146,271</b>	<b>-</b>	<b>-</b>	<b>15,874,439</b>	<b>16,146,271</b>
Net position						
Net invested in capital assets, net of related debt	11,477,707	-	-	-	-	-
Restricted net position	-	12,354,829	368,096	385,842	368,096	12,740,671
Unrestricted net position	2,197,110	1,820,095	354,277	163,836	2,551,387	1,983,931
<b>Total Net Position</b>	<b>\$ 16,377,256</b>	<b>\$ 15,993,535</b>	<b>\$ 722,373</b>	<b>\$ 549,678</b>	<b>\$ 17,099,629</b>	<b>\$ 16,543,213</b>

The following is a summary of the District's changes in net position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Charges for services	\$ 32,072	\$ 46,788	\$ 230,295	\$ 231,957	\$ 262,367	\$ 278,745
Operating grants & contributions	12,937,830	13,859,327	2,270,097	2,093,391	15,207,927	15,952,718
Capital grants & contributions	1,670,061	1,738,183	-	-	1,670,061	1,738,183
General revenues						
Local taxes	4,204,856	4,199,475	-	-	4,204,856	4,199,475
State sources	16,335,408	16,780,831	-	-	16,335,408	16,780,831
Federal sources	-	-	-	-	-	-
Other	196,462	158,511	-	-	196,462	158,511
<b>Total revenues</b>	<b>35,376,689</b>	<b>36,783,115</b>	<b>2,500,392</b>	<b>2,325,348</b>	<b>37,877,080</b>	<b>39,108,463</b>
Expenses						
School operation and administration	34,025,649	36,045,076	-	-	34,025,649	36,045,076
School food services	-	-	2,327,697	2,339,439	2,327,697	2,339,439
Interest on debt service	967,319	403,037	-	-	967,319	403,037
<b>Total expenses</b>	<b>34,992,968</b>	<b>36,448,113</b>	<b>2,327,697</b>	<b>2,339,439</b>	<b>37,320,664</b>	<b>38,787,552</b>
Increase/(Decrease) in net assets	\$ 383,721	\$ 335,002	\$ 172,695	\$ (14,091)	\$ 556,416	\$ 320,911

There has been some increase in the financial position of the District since the prior year.

CLAY COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED  
Year ended June 30, 2013

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2013 and 2012.

	<u>2013</u>	<u>2012</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	\$ 5,342,470	\$ 5,012,534
State revenue sources	25,020,865	25,885,938
Federal revenue	4,936,324	5,769,457
Investments	36,884	50,313
Other sources	558,680	83,115
Bond proceeds	5,095,000	-
Transfers in	<u>1,126,253</u>	<u>-</u>
<b>Total Revenue and other financing sources</b>	<u>42,116,475</u>	<u>36,801,357</u>
<b>Expenditures and other financing uses</b>		
Instruction	19,477,604	20,149,601
Student support services	488,377	961,641
Instructional support	3,157,959	3,120,799
District administration	1,691,055	1,890,048
School administration	1,582,597	1,621,812
Business support	421,123	514,517
Plant operations	2,806,235	3,304,887
Student transportation	2,995,675	3,055,121
Non-instructional	1,622	3,163
Community support	409,057	443,623
Site improvement	23,880	318,783
Debt service	6,722,417	1,515,681
Transfers out	<u>1,126,253</u>	<u>-</u>
<b>Total expenditures and other financing uses</b>	<u>40,903,855</u>	<u>36,899,676</u>
<b>Net change in fund balance</b>	<u>\$ 1,212,620</u>	<u>\$ (98,319)</u>

On behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues and have no effect on the District level fund balance.

**BUDGETARY IMPLICATION**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$1,625,352 in contingency. Significant Board action that impacts the finances includes a pay raise for all employees at the beginning of the fiscal year. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Questions regarding this report should be directed to the Superintendent (606) 598-2168, or to the Finance Officer (606) 598-2168 or by mail at 128 Richmond Road, Manchester, Kentucky 40962.

CLAY COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,471,935	\$ 188,115	\$ 4,660,050
Accounts receivable:			
Taxes	53,170	-	53,170
Other	167,768	-	167,768
Intergovernmental - State	81,130	-	81,130
Intergovernmental - Federal	647,901	166,162	814,063
Inventory	-	-	-
Bond issue costs, net	271,477	-	271,477
Capital Assets, net			
Nondepreciable	943,638	-	943,638
Depreciable	<u>25,614,676</u>	<u>368,096</u>	<u>25,982,772</u>
<b>Total assets</b>	<u>32,251,695</u>	<u>722,373</u>	<u>32,974,068</u>
<b>LIABILITIES</b>			
Accounts payable	30,558	-	30,558
Deferred revenue	87,799	-	87,799
Current maturities of bond obligations	1,170,000	-	1,170,000
Current portion of capital leases	58,383	-	58,383
Interest payable	120,503	-	120,503
Noncurrent maturities of bond obligations	13,720,000	-	13,720,000
Noncurrent maturities of capital leases	403,701	-	403,701
Noncurrent portion of accumulated sick leave	<u>283,495</u>	<u>-</u>	<u>283,495</u>
<b>Total liabilities</b>	<u>15,874,439</u>	<u>-</u>	<u>15,874,439</u>
<b>NET POSITION</b>			
Net investment in capital assets	11,939,791	368,096	12,307,887
Restricted for:			
Capital expenditures	1,172,360	-	1,172,360
Capital expenditures/debt service	924,750	-	924,750
Other	100,000	354,277	454,277
Unrestricted	<u>2,240,355</u>	<u>-</u>	<u>2,240,355</u>
<b>Total net position</b>	<u>\$ 16,377,256</u>	<u>\$ 722,373</u>	<u>\$ 17,099,629</u>

The accompanying notes are an integral part of these financial statements

CLAY COUNTY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 Year ended June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities</b>						
Instruction	\$ 20,774,583	\$ 7,762,698	\$ -	\$ (13,011,885)	\$ -	\$ (13,011,885)
Student	499,534	194,067	-	(305,467)	-	(305,467)
Instructional support	3,158,248	2,264,120	-	(894,128)	-	(894,128)
District administration	1,716,245	388,135	-	(1,328,110)	-	(1,328,110)
School administration	1,582,850	323,446	-	(1,259,404)	-	(1,259,404)
Business operations	427,771	129,378	-	(298,393)	-	(298,393)
Plant operations and maintenance	2,820,546	711,581	-	(2,076,894)	-	(2,076,894)
Student transportation	2,635,157	776,270	-	(1,858,887)	-	(1,858,887)
Other instructional	1,622	-	-	(1,622)	-	(1,622)
Community services	409,092	388,135	-	(20,957)	-	(20,957)
Building acquisition and construction	-	-	-	-	-	-
Interest on long-term debt	967,319	-	1,670,061	702,742	-	702,742
<b>Total governmental activities</b>	<b>34,992,967</b>	<b>32,072</b>	<b>12,937,830</b>	<b>(20,353,005)</b>	<b>-</b>	<b>(20,353,005)</b>
<b>Business-type activities</b>						
Food service	2,327,697	227,064	-	-	169,464	169,464
Other	-	3,231	-	-	3,231	3,231
<b>Total business-type activities</b>	<b>2,327,697</b>	<b>230,295</b>	<b>2,270,097</b>	<b>-</b>	<b>172,695</b>	<b>172,695</b>
<b>Total primary government</b>	<b>\$ 37,320,664</b>	<b>\$ 262,367</b>	<b>\$ 15,207,927</b>	<b>(20,353,005)</b>	<b>172,695</b>	<b>(20,180,310)</b>
			<b>General revenues</b>			
			Taxes:			
			Property	2,566,243	-	2,566,243
			Motor vehicle	472,780	-	472,780
			Utility	1,066,040	-	1,066,040
			Other	99,793	-	99,793
			Earnings on investments	36,884	-	36,884
			State grants	16,335,408	-	16,335,408
			Other local amounts	119,431	-	119,431
			Transfers	-	-	-
			Gain/(loss) on disposal of assets	40,147	-	40,147
			Total general revenues	20,736,726	-	20,736,726
			<b>Change in net position</b>	<b>383,721</b>	<b>172,695</b>	<b>556,416</b>
			Net position as of June 30, 2012	15,993,535	549,678	16,543,213
			<b>Net position as of June 30, 2013</b>	<b>\$ 16,377,256</b>	<b>\$ 722,373</b>	<b>\$ 17,099,629</b>

The accompanying notes are an integral part of these financial statements

**CLAY COUNTY SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 June 30, 2013

	General Fund	Special Revenue Funds	Facility Support Program (FSPK) Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,139,449	\$ -	\$ 630,732	\$ 1,172,360	\$ 294,018	\$ 5,236,559
Accounts receivable:						
Taxes	53,170	-	-	-	-	53,170
Accounts	16,350	151,418	-	-	-	167,768
Intergovernmental - State	1,458	79,672	-	-	-	81,130
Intergovernmental - Federal	-	647,901	-	-	-	647,901
<b>Total assets</b>	<b><u>\$ 3,210,427</u></b>	<b><u>\$ 878,991</u></b>	<b><u>\$ 630,732</u></b>	<b><u>\$ 1,172,360</u></b>	<b><u>\$ 294,018</u></b>	<b><u>\$ 6,186,528</u></b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Checks written in excess of account balance	\$ -	\$ 764,624	\$ -	\$ -	\$ -	\$ 764,624
Accounts payable	3,990	26,568	-	-	-	30,558
Deferred revenue	-	87,799	-	-	-	87,799
<b>Total liabilities</b>	<b><u>3,990</u></b>	<b><u>878,991</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>882,981</u></b>
<b>Fund balances</b>						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	630,732	1,172,360	294,018	2,097,110
Committed	100,000	-	-	-	-	100,000
Assigned	-	-	-	-	-	-
Unassigned	3,106,437	-	-	-	-	3,106,437
<b>Total fund balances</b>	<b><u>3,206,437</u></b>	<b><u>-</u></b>	<b><u>630,732</u></b>	<b><u>1,172,360</u></b>	<b><u>294,018</u></b>	<b><u>5,303,547</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 3,210,427</u></b>	<b><u>\$ 878,991</u></b>	<b><u>\$ 630,732</u></b>	<b><u>\$ 1,172,360</u></b>	<b><u>\$ 294,018</u></b>	<b><u>\$ 6,186,528</u></b>

The accompanying notes are an integral part of these financial statements

**CLAY COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET POSITION**  
**Year ended June 30, 2013**

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Total fund balances - governmental funds	\$ 5,303,547
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.	26,558,314
Capitalized the bond issue costs for the sale/refunding of bonds less amortization over the life of the bonds.	271,477
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.	(14,890,000)
Capital leases 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.	(462,084)
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.	(283,495)
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.	<u>(120,503)</u>
Total net position - governmental activities	<u>\$ 16,377,256</u>

CLAY COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended June 30, 2013

	General Fund	Special Revenue Funds	Facility Support Program (FSPK) Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
From local sources:						
Taxes:						
Property	\$ 2,286,962	\$ -	\$ 279,280	\$ -	\$ -	\$ 2,566,242
Motor vehicle	472,780	-	-	-	-	472,780
Utility	1,066,040	-	-	-	-	1,066,040
Other	99,793	-	-	-	-	99,793
Earnings on investments	25,863	-	3,079	6,206	1,737	36,885
Other local	151,503	986,108	-	-	-	1,137,611
Intergovernmental - State	22,088,117	1,262,687	791,895	129,453	748,713	25,020,865
Intergovernmental - Federal	67,294	4,869,029	-	-	-	4,936,323
<b>Total revenues</b>	<b>26,258,352</b>	<b>7,117,824</b>	<b>1,074,254</b>	<b>135,659</b>	<b>750,450</b>	<b>35,336,539</b>
<b>Expenditures</b>						
Current:						
Instruction	15,024,407	4,453,197	-	-	-	19,477,604
Student	421,098	67,280	-	-	-	488,378
Instructional support	978,681	2,179,278	-	-	-	3,157,959
District administration	1,691,055	-	-	-	-	1,691,055
School administration	1,582,596	-	-	-	-	1,582,596
Business operations	421,123	-	-	-	-	421,123
Plant operations and maintenance	2,794,050	12,185	-	-	-	2,806,235
Student transportation	2,978,391	17,283	-	-	-	2,995,674
Other instructional	1,622	-	-	-	-	1,622
Community services	456	408,601	-	-	-	409,057
Building acquisition and construction	-	-	-	23,880	-	23,880
Site improvement	-	-	-	-	-	-
Debt service	67,948	-	-	-	1,559,469	1,627,417
<b>Total expenditures</b>	<b>25,961,427</b>	<b>7,137,824</b>	<b>-</b>	<b>23,880</b>	<b>1,559,469</b>	<b>34,682,600</b>
Excess (deficit) of revenues over (under) expenditures	296,925	(20,000)	1,074,254	111,779	(809,019)	653,939
<b>Other financing sources (uses)</b>						
Bond principal proceeds	-	-	-	-	5,095,000	5,095,000
Deposits with escrow agents	-	-	-	-	(5,010,814)	(5,010,814)
Bond issuance cost	-	-	-	-	(84,186)	(84,186)
Capital lease proceeds	518,475	-	-	-	-	518,475
Proceeds from sale of assets	40,205	-	-	-	-	40,205
Transfers in	-	20,000	-	-	1,106,253	1,126,253
Transfers out	(20,000)	-	(904,431)	-	(201,822)	(1,126,253)
<b>Total other financing sources (uses)</b>	<b>538,680</b>	<b>20,000</b>	<b>(904,431)</b>	<b>-</b>	<b>904,431</b>	<b>558,680</b>
<b>Net change in fund balance</b>	<b>835,605</b>	<b>-</b>	<b>169,823</b>	<b>111,779</b>	<b>95,412</b>	<b>1,212,619</b>
Fund balance as of June 30, 2012	2,370,832	-	460,909	1,060,581	198,606	4,090,928
<b>Fund balance as of June 30, 2013</b>	<b>\$ 3,206,437</b>	<b>\$ -</b>	<b>\$ 630,732</b>	<b>\$ 1,172,360</b>	<b>\$ 294,018</b>	<b>\$ 5,303,547</b>

The accompanying notes are an integral part of these financial statements

**CLAY COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF REVENUES,**  
**EXPENSES, AND CHANGES IN NET POSITION**  
Year ended June 30, 2013

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Net change in total fund balances - governmental funds	\$ 1,212,619
Amounts reported for governmental activities in the statement of revenues, expenses, and change in net position are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of revenues, expenses, and changes in net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	(974,911)
Bond issuance costs are reported as expenditures in the fund financial statements because they use current resources, but they are presented as assets in the statement of revenues, expenses, and changes in net position and amortized over the life of the bond.	(30,127)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	127,916
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of revenues, expenses, and changes in net position.	13,711
Accumulated sick leave is recognized by the amount earned in the statement of revenues, expenses, and change in net position, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>34,513</u>
Change in net position - governmental activities	<u>\$ 383,721</u>

CLAY COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
June 30, 2013

	Food Service Fund	Total
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 188,115	\$ 188,115
Accounts receivable	<u>166,162</u>	<u>166,162</u>
Total current assets	<u>354,277</u>	<u>354,277</u>
<b>Noncurrent assets</b>		
Capital assets	1,754,735	1,754,735
Less accumulated depreciation	<u>(1,386,639)</u>	<u>(1,386,639)</u>
Total noncurrent assets	<u>368,096</u>	<u>368,096</u>
<b>Total assets</b>	<u>722,373</u>	<u>722,373</u>
<b>LIABILITIES</b>		
Checks written in excess of account balance	-	-
Accounts payable	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	368,096	368,096
Restricted for:		
Other	354,277	354,277
Unrestricted	<u>-</u>	<u>-</u>
<b>Total net position</b>	<u>\$ 722,373</u>	<u>\$ 722,373</u>

**CLAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2013

	Food Service Fund	Total
<b>Operating revenues</b>		
Lunchroom sales	\$ 227,064	\$ 227,064
Other	3,232	3,232
Total operating revenues	<u>230,296</u>	<u>230,296</u>
<b>Operating expenses</b>		
Salaries and wages	798,181	798,181
Employee benefits	377,593	377,593
Materials and supplies	1,134,179	1,134,179
Depreciation	17,745	17,745
Total operating expenses	<u>2,327,698</u>	<u>2,327,698</u>
Operating loss	<u>(2,097,402)</u>	<u>(2,097,402)</u>
<b>Nonoperating revenues</b>		
Federal grants	1,952,590	1,952,590
State grants	202,186	202,186
Donated commodities	115,321	115,321
Interest income	-	-
Loss on disposal of assets	-	-
Total nonoperating revenues/(expenses)	<u>2,270,097</u>	<u>2,270,097</u>
Income before contributions		
Transfers and special items	172,695	172,695
Transfers in	-	-
<b>Change in net position</b>	172,695	172,695
Net position as of June 30, 2012	<u>549,678</u>	<u>549,678</u>
<b>Net position as of June 30, 2013</b>	<u>\$ 722,373</u>	<u>\$ 722,373</u>

The accompanying notes are an integral part of these financial statements

CLAY COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
Year ended June 30, 2013

	Food Service Fund	Total
<b>Cash flows from operating activities</b>		
Cash received from:		
Lunchroom sales	\$ 227,064	\$ 227,064
Other activities	3,232	3,232
Cash paid to/for:		
Employees	(1,175,774)	(1,175,774)
Supplies	(1,134,179)	(1,134,179)
Net cash used in operating activities	<u>(2,079,657)</u>	<u>(2,079,657)</u>
<b>Cash flows from non-capital financing activities</b>		
Grants received	2,103,938	2,103,938
Transfer in From General Fund	-	-
Net cash used in non-capital financing activities	<u>2,103,938</u>	<u>2,103,938</u>
<b>Cash flows from investing activities</b>		
Purchase of fixed assets	-	-
Interest received on investments	-	-
Net cash used in capital and related activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	24,281	24,281
Cash and cash equivalents as of June 30, 2012	163,834	163,834
<b>Cash and cash equivalents as of June 30, 2013</b>	<u>\$ 188,115</u>	<u>\$ 188,115</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income/ (loss)	\$ (2,097,402)	\$ (2,097,402)
Adjustments to reconcile change in net position to net cash used in operating activities:		
(Increase) Decrease in Accounts receivable	-	-
Increase (Decrease) in Accounts payable	-	-
Increase (Decrease) in Checks written in excess of account balance	-	-
Depreciation	17,746	17,746
Commodities received	-	-
<b>Net cash used in operating activities</b>	<u>\$ (2,079,657)</u>	<u>\$ (2,079,657)</u>
<b>Schedule of non-cash transactions:</b>		
Loss on disposal of assets	-	-
Depreciation	17,745	17,745
Donated commodities	115,321	115,321
<b>Total non-cash transactions</b>	<u>\$ 133,066</u>	<u>\$ 133,066</u>

CLAY COUNTY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
 June 30, 2013

	Agency Funds	Fiscal Agent Fund	Total Fiduciary Funds
<b>ASSETS</b>			
Cash	\$ 370,198	\$ 311	\$ 370,509
Accounts receivable	-	-	-
<b>Total assets</b>	<u>370,198</u>	<u>311</u>	<u>370,509</u>
<b>LIABILITIES</b>			
Due to community groups	-	311	311
Due to student groups	<u>370,198</u>	-	<u>370,198</u>
<b>Total liabilities</b>	<u>370,198</u>	<u>311</u>	<u>370,509</u>
<b>Total net position</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

## 1. REPORTING ENTITY

The Clay 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 Clay County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Clay County Board of Education. 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Clay County School District Finance Corporation - In 1989, the Clay County Board of Education resolved to authorize the establishment of the Clay County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the significant accounting policies:

**Government-wide Financial Statements** - The statement of net position and the statement of revenues, expenses, and changes in net position display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

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.

The District has the following funds:

### I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within 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. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### I. Government Fund Types - continued

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

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

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for 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. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency Funds)

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

### Basis of Accounting

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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. The District reports deferred revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as deferred revenue. In subsequent periods, the liability for deferred revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

### Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.555 per \$100 valuation for real property, \$.555 per \$100 valuation for business personal property and \$.487 per \$100 valuation for motor vehicles.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

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.

Prepaid Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. 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 capitalized.

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	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	20 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

### Budgetary Process

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

- Revenues are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

### Cash and Cash Equivalents

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

### Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balance Reserves

The Board adopted GASB Statement Number 54 in a prior year and under this statement, the fund balance is separated into five categories as follows:

**Nonspendable** fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

**Restricted** fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Committed** fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

**Assigned** fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

**Unassigned** fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

### Encumbrances

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 year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013, in the governmental funds balance sheet.

### Net Position

Net position represents the difference between assets and liabilities. Net position 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 their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### Operating Revenues and Expenses

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

### Contributions of Capital

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

### Interfund Activity

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

### Estimates

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

## 3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, none of the District's bank balance were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

**3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED**

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First National Bank & Trust of Manchester	\$ 5,347,795	\$ 4,295,414
PNC Bank	<u>645,414</u>	<u>734,834</u>
	<u>\$ 5,993,209</u>	<u>\$ 5,030,248</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 4,471,935
Proprietary funds	188,115
Agency funds	<u>370,198</u>
	<u>\$ 5,030,248</u>

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

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

**4. INVESTMENTS**

Funds of the District are 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 as provided by KRS 66.480. At June 30, 2013, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

**CLAY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**5. CAPITAL ASSETS**

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

	June 30, 2012 Balance	Additions	Retirements	June 30, 2013 Balance
<b>Governmental Activities</b>				
Land & Land Improvements	\$ 943,638	\$ -	\$ -	\$ 943,638
Buildings	40,471,061	-	-	40,471,061
Technology	2,298,478	90,784	75,503	2,313,759
Vehicles	5,355,077	518,475	286,604	5,586,948
General Equipment	1,018,107	30,529	-	1,048,636
Construction Work in Progress	-	-	-	-
Total historical cost	<u>50,086,361</u>	<u>639,788</u>	<u>362,107</u>	<u>50,364,042</u>
Less accumulated depreciation	<u>22,553,136</u>	<u>1,614,640</u>	<u>362,048</u>	<u>23,805,728</u>
Governmental capital assets, net	<u>\$ 27,533,225</u>	<u>\$ (974,852)</u>	<u>\$ 59</u>	<u>\$ 26,558,314</u>
<b>Business-type Activities</b>				
Buildings	\$ 993,436	\$ -	\$ -	\$ 993,436
Technology	-	-	-	-
Food service equipment	<u>761,299</u>	<u>-</u>	<u>-</u>	<u>761,299</u>
Total historical cost	1,754,735	-	-	1,754,735
Less accumulated depreciation	<u>1,368,893</u>	<u>17,746</u>	<u>-</u>	<u>1,386,639</u>
Business-type capital assets, net	<u>\$ 385,842</u>	<u>\$ (17,746)</u>	<u>\$ -</u>	<u>\$ 368,096</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 1,323,294
Student	11,157
Instruction staff	289
District administrative	25,190
School administrative	253
Business	6,648
Plant operation and maintenance	14,311
Student transportation	233,461
Community service	<u>37</u>
	<u>\$ 1,614,640</u>

**CLAY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Year ended June 30, 2013**

**6. CAPITAL LEASE PAYABLE**

The District has entered into a capital lease agreement for buses under which the buses will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2013:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2012	Debt Issued	Debt Paid	Balance June 30, 2013	Due Within One Year
2012 KISTA								
First Series	March, 2022	2% - 2.625%	\$ 518,475	\$ 518,475	\$ -	\$ 56,391	\$ 462,084	\$ 58,383
			<u>\$ 518,475</u>	<u>\$ 518,475</u>	<u>\$ -</u>	<u>\$ 56,391</u>	<u>\$ 462,084</u>	<u>\$ 58,383</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2013:

Year	Principal	Interest	Total
2013-14	\$ 58,383	\$ 9,908	\$ 68,291
2014-15	49,018	8,741	57,759
2015-16	50,014	7,760	57,774
2016-17	51,011	6,760	57,771
2017-18	52,007	5,740	57,747
2018-19	53,202	4,700	57,902
2019-20	54,199	3,636	57,835
2020-21	46,428	2,416	48,844
2021-22	<u>47,822</u>	<u>1,255</u>	<u>49,077</u>
Totals	<u>\$ 462,084</u>	<u>\$ 50,916</u>	<u>\$ 513,000</u>
		Less: amounts representing interest	<u>(50,916)</u>
		Net Capital lease liability	<u>\$ 462,084</u>

**CLAY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**Year ended June 30, 2013**

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**7. LONG-TERM 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 Clay County School District Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1996	\$ 1,730,000	4.40%
2003	\$ 3,800,000	2.00% - 3.20%
2005	\$ 5,000,000	3.50% - 4.20%
2008	\$ 4,460,000	3.55%
2010	\$ 5,510,000	0.5% - 2.65%
2012R	\$ 5,095,000	0.5% - 2.10%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Clay 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.

In 1996, 2003, and 2008 the District entered into "participation agreements" with the Kentucky 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. In 2008 the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. 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 liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

During the current year, The Clay County School District issued a refunding bond to partially refund the 2005 bond. The effective rate of the refund was 2.307% and the present value of the savings to the District is \$242,217.

**CLAY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2013

**7. LONG-TERM OBLIGATIONS - CONTINUED**

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

Year	Clay County School District		Kentucky School Facility Construction Commission		Urgent Needs Trust Fund		Total Principal	Total Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2013-14	\$ 852,015	\$ 257,817	\$ 175,012	\$ 35,574	\$ 142,973	\$ 98,298	\$ 1,170,000	\$ 391,689
2014-15	836,472	234,113	55,479	29,629	148,049	93,223	1,040,000	356,965
2015-16	861,050	213,081	55,646	27,482	153,304	87,967	1,070,000	328,530
2016-17	873,455	197,100	52,798	25,398	158,747	82,525	1,085,000	305,023
2017-18	900,000	179,730	50,618	23,576	164,382	76,889	1,115,000	280,195
2018-19	915,000	161,430	49,782	21,779	170,218	71,054	1,135,000	254,263
2019-20	935,000	142,130	53,739	20,011	176,261	65,011	1,165,000	227,152
2020-21	965,000	120,155	57,482	18,103	182,518	58,754	1,205,000	197,012
2021-22	980,000	97,480	56,003	16,063	188,997	52,274	1,225,000	165,817
2022-23	1,005,000	73,475	59,293	14,075	195,707	45,565	1,260,000	133,115
2023-24	1,000,000	50,863	62,346	11,970	202,654	38,617	1,265,000	101,450
2024-25	995,000	27,363	65,152	9,757	209,848	31,423	1,270,000	68,543
2025-26	-	-	67,702	7,444	217,298	23,974	285,000	31,418
2026-27	-	-	69,988	5,041	225,012	16,259	295,000	21,300
2027-28	-	-	72,000	2,556	233,000	8,272	305,000	10,828
	<u>\$ 11,117,992</u>	<u>\$ 1,754,737</u>	<u>\$ 1,003,040</u>	<u>\$ 268,458</u>	<u>\$ 2,768,968</u>	<u>\$ 850,105</u>	<u>\$ 14,890,000</u>	<u>\$ 2,873,300</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2013 is as follows:

School Building Revenue Bonds	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
1996	\$ 50,000	-	\$ 10,000	\$ 40,000
2003	1,495,000	-	735,000	760,000
2005	4,830,000	-	4,605,000	225,000
2008	3,795,000	-	180,000	3,615,000
2010	5,310,000	-	125,000	5,185,000
2012	-	5,095,000	30,000	5,065,000
	<u>\$ 15,480,000</u>	<u>\$ 5,095,000</u>	<u>\$ 5,685,000</u>	<u>\$ 14,890,000</u>

## **8. RETIREMENT PLANS**

### Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

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 plan. That report may 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/>.

*Funding policy* – Contribution rates are established by KTRS. Members contribute 10.855% of their salaries to KTRS. Employer contributions for federally funded employees were 14.105% and employer contributions for non-federally funded employees was 1.0%. The Commonwealth of Kentucky, on behalf of the District's certified employees, is required to contribute a portion of the state retirement (see Note 18 - *On-Behalf Payments*). The federal program for any salaries paid by that program pays the matching contributions.

### Medical Insurance Plan

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

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

*Funding policy* – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of member's gross salaries. Those who became members before July 1, 2008 contribute 1.25% of their salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.00% of members' salary for the 2012-2013 fiscal year.

### County Employees Retirement System

Substantially all other employees (full time classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple employers, and public employer's retirement system. The plan provides for retirement, disability, and death benefits. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The CERS issues a publicly available financial report which may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

## **8. RETIREMENT PLANS-CONTINUED**

*Funding Policy* - Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5% and a District contribution of 19.55% of the employee's total compensation subject to contribution.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

The District's total payroll for the year was \$21,222,600. The payroll for employees covered under KTRS was \$16,431,150 and for CERS was \$4,745,987.

The District's contribution KTRS for the years ended June 30, 2013, 2012 and 2011 was \$449,606, \$471,329, and \$519,818, respectively. The District's contributions to CERS for the years ended June 30, 2012, 2011, and 2010 were \$919,462, \$930,211, and \$842,602, respectively. The District met their contribution requirements.

## **9. LEASES**

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2013, aggregate cost for equipment and copier rentals was approximately \$94,133.

## **10. CONTINGENCIES**

*Grants* - The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based 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, and 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.

*Kentucky School Boards Insurance Trust (KSBIT)*-The Kentucky School Boards Insurance Trust was created in 1978 to provide insurance through nonprofit self-insured pools authorized under Kentucky law. These pools allow school districts, colleges and universities to combine their resources while sharing risks. Due to various economic factors, the Pools have incurred significant deficits. KSBIT has taken a number of steps to address the Pools' deficits; however, the deficits have grown as claims costs have escalated and a substantial number of districts have continued to leave the Pools due to competitive pressures.

The Board of Trustees of KSBIT had claims and reserve reviews undertaken by independent outside firms to confirm the Pools' deficits. As a result of these reviews and after consultation with the Kentucky Department of Insurance, KSBIT will be considering the following actions as part of a corrective action plan required by law.

- An assessment under a fair methodology to be approved by the Kentucky Department of Insurance of current and past participating members to fund the deficit.
- As applicable, a financing option that will give participating districts the choice of paying their portion, if any, of the assessment over a twenty-year period.

#### **10. CONTINGENCIES-CONTINUED**

- The KSBIT self-insurance Pools will no longer accept new or renewal business after January 2013.
- While these are still viable considerations, on November 7, 2013 the Kentucky Department of Insurance (DOI) filed petitions in Franklin Circuit Court asking that two of the Kentucky School Boards Insurance Trust's self-insured funds be placed in rehabilitation, which means DOI will directly manage the funds.

As of the date of this report, KSBIT has proffered several estimate methodologies over a broad range. Neither methodology has been accepted by the Kentucky Department of Insurance and a reasonable estimate of each districts' liability is not known nor has a payment amount been mandated to the school districts. In addition, the management of the Clay County School District cannot reasonably estimate the outcome of this issue

Based on the current information available, there is a reasonable possibility that the Clay County School District will be required to pay some part of the deficit. However, at this time, no reasonable or acceptable estimate is available; therefore no liability is recorded in the financial statements regarding this issue. The management of the District does believe it will not incur significant adverse effects whatever the disposition of this issue.

#### **11. LITIGATION**

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

#### **12. IMPLEMENTATION OF GASB STATEMENT NO. 63**

The District has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013. This standard established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

The noticeable changes to this audit include the use of the new wording, "net position," instead of the previously used wording of "net assets" and resulted in only a formatting change in the current year.

#### **13. RISK MANAGEMENT**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. Settled claims resulting from these risks have created a potential liability as discussed in Note 10-*Contingencies*.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

#### **14. DEFICIT FUND BALANCES**

The District did not have any funds with deficit balances at June 30, 2013. However, there may be funds with deficit operating balances.

**15. COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. There were no instances of noncompliance noted.

**16. TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 20,000
Operating	FSPK Fund	Debt Service	Debt Service	904,431
Operating	SEEK Capital Outlay	Debt Service	Debt Service	201,822

**17. INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2013, there were no interfund balances outstanding that are reflected in the financial statements.

**18. ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 1,151,358
Health and Life insurance	4,395,668
Other	198,377
Technology	79,228
Debt Service	453,216
	<u>6,277,847</u>
	<u>\$ 6,277,847</u>

**19. FUND BALANCE DESIGNATIONS**

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
FSPK	\$ 630,732	Construction/ Debt Service
Construction	1,172,360	Future Construction
Capital Outlay	294,018	SFCC Requirement

The following funds had committed fund balances as follows:

Fund	Amount	Purpose
General	\$ 100,000	Sick Leave Retirement Benefit

**20. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through the date of the audit report. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CLAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - GENERAL FUND**  
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Taxes:				
Property	\$ 2,460,500	\$ 2,460,500	\$ 2,286,962	\$ (173,538)
Motor vehicle	350,000	350,000	472,780	122,780
Utility	925,000	925,000	1,066,040	141,040
Other	100,000	100,000	99,793	(207)
Earnings on investments	30,000	30,000	25,863	(4,137)
Other local	33,000	33,000	151,503	118,503
Intergovernmental - State	16,377,703	16,377,703	22,088,117	5,710,414
Intergovernmental - Federal	45,000	45,000	67,294	22,294
<b>Total revenues</b>	<b>20,321,203</b>	<b>20,321,203</b>	<b>26,258,352</b>	<b>5,937,149 *</b>
<b>Expenditures</b>				
Current:				
Instruction	11,340,806	11,340,806	15,024,407	(3,683,601)
Student	337,287	337,287	421,098	(83,811)
Instructional staff	678,857	678,857	978,681	(299,824)
District administration	1,497,366	1,497,366	1,691,055	(193,689)
School administration	1,442,221	1,442,221	1,582,596	(140,375)
Business operations	285,732	285,732	421,123	(135,391)
Plant operations and maintenance	2,860,397	2,860,397	2,794,050	66,347
Student transportation	2,479,898	2,479,898	2,978,391	(498,493)
Other instructional	3,170	3,170	1,622	1,548
Community service	-	-	456	(456)
Contingency	1,625,352	1,625,352	-	1,625,352
Debt service	67,949	67,949	67,948	1
<b>Total expenditures</b>	<b>22,619,035</b>	<b>22,619,035</b>	<b>25,961,427</b>	<b>(3,342,392) *</b>
Excess (deficit) of revenues over (under) expenditures	(2,297,832)	(2,297,832)	296,925	2,594,757
<b>Other financing sources (uses)</b>				
Capital lease proceeds	-	-	518,475	518,475
Transfers in	-	-	-	-
Transfers out	-	-	(20,000)	(20,000)
Proceeds from sale of assets	27,000	27,000	40,205	13,205
<b>Total other financing sources (uses)</b>	<b>27,000</b>	<b>27,000</b>	<b>538,680</b>	<b>511,680</b>
<b>Net change in fund balance</b>	<b>(2,270,832)</b>	<b>(2,270,832)</b>	<b>835,605</b>	<b>3,106,437</b>
Fund balance as of June 30, 2012	2,270,832	2,270,832	2,370,832	100,000
<b>Fund balance as of June 30, 2013</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,206,437</b>	<b>\$ 3,206,437</b>

\* For the year ended June 30, 2013, actual revenues and expenditures exceeded appropriations in various categories primarily due to on-behalf payments made by the Commonwealth of Kentucky for the Clay County School District. These amounts are included in the actual revenues and expenditures, but are not included in the budgeted amounts.

**CLAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**  
Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources:				
Other local	\$ 1,025,282	\$ 1,025,282	\$ 986,108	\$ (39,174)
Intergovernmental - State	1,192,517	1,192,517	1,262,687	70,170
Intergovernmental - Federal	4,604,827	4,604,827	4,869,029	264,202
<b>Total revenues</b>	<b>6,822,626</b>	<b>6,822,626</b>	<b>7,117,824</b>	<b>295,198</b>
<b>Expenditures</b>				
Current:				
Instruction	4,248,257	4,248,257	4,453,197	(204,940)
Student	40,639	40,639	67,280	(26,641)
Instructional support	2,083,349	2,083,349	2,179,278	(95,929)
District administration	-	-	-	-
School administration	-	-	-	-
Plant operation and management	17,500	17,500	12,185	5,315
Student transportation	27,351	27,351	17,283	10,068
Community service	405,530	405,530	408,601	(3,071)
<b>Total expenditures</b>	<b>6,822,626</b>	<b>6,822,626</b>	<b>7,137,824</b>	<b>(315,198)</b>
Deficit of revenues under expenditures	-	-	(20,000)	(20,000)
<b>Other financing sources</b>				
Operating transfers in	-	-	20,000	20,000
Total other financing sources	-	-	20,000	20,000
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balance as of June 30, 2012	-	-	-	-
<b>Fund balance as of June 30, 2013</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The accompanying notes are an integral part of these financial statements

CLAY COUNTY SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGET AND ACTUAL - GENERAL FUND  
 Year ended June 30, 2013

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Because of the nature of certain transactions allocated to the general fund, specific revenue, expenditures, and other financing sources and uses were not budgeted in the General Fund by the District during the year ending June 30, 2013. A schedule of non-budgeted transactions is presented below.

**Non-budgeted revenues**

Intergovernmental state revenue - on-behalf payments	<u>\$ 5,641,791</u>
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**Non- budgeted expenditures**

**On-behalf expenditures**

Instruction	\$ 3,897,880
Student	89,391
Instructional staff support	255,353
District administration	266,040
School administration	366,288
Business support services	137,814
Plant operations and maintenance	261,332
Student transportation	<u>367,693</u>

<b>Total non-budgeted on-behalf expenditures</b>	<u>\$ 5,641,791</u>
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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 must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes 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 calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget. The working budget was amended during the year.

CLAY COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2013

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	SEEK Capital Outlay Fund	Debt Service Fund	Total Non-major Governmental Funds
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 294,018	\$ -	\$ 294,018
<b>Total assets</b>	<u>\$ 294,018</u>	<u>\$ -</u>	<u>\$ 294,018</u>
<b>FUND BALANCES</b>			
Fund Balances: Restricted	\$ 294,018	\$ -	\$ 294,018
<b>Total fund balances</b>	<u>\$ 294,018</u>	<u>\$ -</u>	<u>\$ 294,018</u>



**CLAY COUNTY SCHOOL DISTRICT  
COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**

Year ended June 30, 2013

School/ Activity Fund	Cash and Equivalents June 30, 2012	Receipts	Disbursements	Cash and Cash Equivalents June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Big Creek Elementary School	\$ 15,784	\$ 22,950	\$ 28,027	\$ 10,707	\$ -	\$ -	\$ 10,707
Burning Springs Elementary School	10,971	42,915	42,646	11,240	-	-	11,240
Goose Rock Elementary School	74,504	28,931	22,076	81,359	-	-	81,359
Hacker Elementary School	28,667	19,413	17,726	30,354	-	-	30,354
Oneida Elementary School	984	21,360	19,703	2,641	-	-	2,641
Manchester Elementary School	80,448	50,974	47,573	83,849	-	-	83,849
Paces Creek Elementary School	29,615	32,759	43,548	18,826	-	-	18,826
Horse Creek Learning Center	5,578	1,315	1,155	5,738	-	-	5,738
Clay County Middle School	22,430	92,398	79,895	34,933	-	-	34,933
<b>Totals</b>	<b>\$ 268,981</b>	<b>\$ 313,015</b>	<b>\$ 302,349</b>	<b>\$ 279,647</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 279,647</b>

CLAY COUNTY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 CLAY COUNTY HIGH SCHOOL ACTIVITY FUND  
 Year ended June 30, 2013

	Fund Balances June 30, 2012	Receipts	Disbursements	Transfers In	Cash and cash equivalents	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
General	\$ 12,378	\$ 40,453	\$ 45,168	\$ (4,128)	\$ 3,535	\$ -	\$ -	\$ 3,535
Vending Machines	1,480	3,032	5,718	1,814	608	-	-	608
Staff fund	1,194	6,257	4,144	-	3,307	-	-	3,307
Basketball, Boys	11,733	45,764	55,663	(100)	1,734	-	-	1,734
Basketball, Girls	12,697	27,612	33,094	-	7,215	-	-	7,215
Football Club	12,041	51,905	61,273	(400)	2,273	-	-	2,273
Baseball	15,063	23,201	26,451	-	11,813	-	-	11,813
Cross-country	-	-	170	170	-	-	-	-
Cheerleaders	4,544	37,047	37,113	-	4,478	-	-	4,478
Dance Team	-	6,297	6,524	227	-	-	-	-
Girl's Golf	-	2,283	1,432	(851)	-	-	-	-
Softball	3,160	2,050	3,176	-	2,034	-	-	2,034
Golf-Boys	-	4,645	2,312	(2,333)	-	-	-	-
Tennis	5,233	3,350	4,365	-	4,198	-	-	4,198
Volleyball	-	2,127	3,023	896	-	-	-	-
Track	5,185	7,278	9,318	-	3,145	-	-	3,145
Archery	2,980	4,009	5,575	-	1,414	-	-	1,414
Band	2,721	6,628	8,984	-	365	-	-	365
Choir	563	3,005	4,147	579	-	-	-	-
FCCLA	313	311	251	-	373	-	-	373
Crafting	-	114	-	-	114	-	-	114
FBLA	82	-	-	-	82	-	-	82
Home economics	2,497	594	965	-	2,126	-	-	2,126
JKG Program	9	-	-	-	9	-	-	9
Beta	156	1,533	1,851	162	63	-	-	63
College Prep Fund	456	520	913	-	560	-	-	560
Pep Club	560	-	-	-	11	-	-	11
Drama Club	46	1	36	-	80	-	-	80
Pride Club	80	-	-	-	44	-	-	44
JROTC	-	10,843	10,794	(5)	424	-	-	424
4-H Club	-	870	446	-	612	-	-	612
Y Club	815	3,617	3,820	-	1,463	-	-	1,463
Tiger's Den	1,379	84	-	-	15	-	-	15
Swat Club	15	-	-	-	2,504	-	-	2,504
Book Club	366	12,998	10,860	-	33,289	-	-	33,289
Annual Staff	32,193	26,373	25,277	-	232	-	-	232
Newspaper	-	232	-	-	-	-	-	-
Advanced Placement	-	4,245	8,393	4,148	-	-	-	-
Evening of Excellence	-	-	-	-	-	-	-	-
Rocky's FMD	106	-	95	-	11	-	-	11
Amy's FMD	387	201	216	-	372	-	-	372
Academic Team	1,540	7,432	7,521	-	1,451	-	-	1,451
Avenue of Champion Bank	3,392	-	3,392	-	-	-	-	-
School to Work	2	-	-	-	2	-	-	2
Madrigal	2,626	838	2,690	(179)	595	-	-	595
Total accounts	\$ 137,982	\$ 347,749	\$ 395,190	\$ -	\$ 90,551	\$ -	\$ -	\$ 90,551

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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CLAY COUNTY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>Expenditures</b>			
<u>U.S. Department of Education</u>			
Passed through the Kentucky Department of Education:			
<i>Title I, Part A Cluster</i>			
Title I Grants to Local Educational Agencies	84.010	3100002 12	\$ 1,101,724
Title I Grants to Local Educational Agencies	84.010	3100002 13	1,712,552
Title I Grants to Local Educational Agencies	84.010	3100202 12	26,848
Title I Grants to Local Educational Agencies	84.010	3100202 13	45,884
<b>Total Title I, Part A Cluster</b>			<u>2,887,008</u>
School Improvement Grants, Recovery Act	84.388	4100302 09	61,541
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3160002 12	437
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3160002 13	156,453
			<u>156,890</u>
<i>Special Education Cluster</i>			
Special Education_Grants to States	84.027	3810002 12	177,901
Special Education_Grants to States	84.027	3810002 13	801,273
			<u>979,174</u>
Special Education_Preschool Grants	84.173	3800002 12	10,588
Special Education_Preschool Grants	84.173	3800002 13	59,996
			<u>70,584</u>
<b>Total Special Education Cluster</b>			<u>1,049,738</u>
Career and Technical Education - Basic Grants to States	84.048	4621132 13	46,196
Rural Education	84.358	3140002 10	40,011
Rural Education	84.358	3140002 11	40,723
Rural Education	84.358	3140002 12	51,537
			<u>132,271</u>
Mathematics and Science Partnerships	84.366	3522	383
Tech-Prep Education	84.243	3631	1,270
Race to the Top - Early Learning Challenge	84.416	4521	27,984
Fund for the Improvement of Education	84.215	5182	43,797
Fund for the Improvement of Education	84.215	5183	29,833
			<u>73,630</u>
Education Jobs Fund	84.410	EJOB00 10	14,335
Improving Teacher Quality State Grants	84.367	3230002 13	413,648
<b>Total U.S. Department of Education</b>			<u>4,864,894</u>
<u>U.S. Department of National and Community Service</u>			
Passed through the Kentucky Department of Education:			
Learn and Serve America-School and Community Based Programs	94.004	1000002 11	635
<b>Total U.S. Department of National and Community Service</b>			<u>635</u>

**CLAY 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>
<b><u>U.S. Department of Agriculture</u></b>			
<i>Child Nutrition Cluster</i>			
Passed through the Kentucky Department of Education			
National School Lunch Program	10.555	7750002 12	294,925
National School Lunch Program	10.555	7750002 13	1,111,075
National School Lunch Program	10.555	026-0100	<u>115,321</u>
			<u>1,521,320</u>
School Breakfast Program	10.553	7760005 12	109,831
School Breakfast Program	10.553	7760005 13	<u>405,213</u>
			<u>515,044</u>
Summer Food Service Program for Children	10.559	7690024 12	2,914
Summer Food Service Program for Children	10.559	7740023 12	<u>26,284</u>
			<u>31,198</u>
<b>Total U.S. Department of Agriculture - Child Nutrition Cluster</b>			<u>2,067,562</u>
Fresh Fruits and Vegetable Program	10.582	7720012 12	349
<b>Total U.S. Department of Agriculture</b>			<u>2,067,911</u>
<b><u>U.S. Department of Labor</u></b>			
Passed through Kentucky Department of Education			
WIA - Adult Program	17.258	5952E	<u>3,071</u>
<b>Total U.S. Department of Labor</b>			<u>3,071</u>
<b><u>U.S. Department of Commerce</u></b>			
Passed through Eastern Kentucky Pride			
Congressionally Identified Awards and Projects	11.469	2723	<u>428</u>
<b>Total cash expenditures</b>			<u>\$ 6,936,939</u>

**CLAY COUNTY SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year ended June 30, 2013**

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**1. BASIS OF PRESENTATION**

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

**2. IN-KIND COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2013 is \$115,321.

**3. CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Special Education – Grants to State, Recovery Act	84.391
Special Education – Preschool Grants, Recovery Act	84.392
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Summer Food Services for Children	10.559
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

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

Independent Auditor's Report

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Clay County School District  
Manchester, 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 the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Clay County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Clay County School District's basic financial statements, and have issued our report thereon dated November 11, 2013.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Clay County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

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

We noted other matters involving the internal control over financial reporting that we have reported to the management of Clay County School District 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Clay County School District  
Manchester, Kentucky

**Report on Compliance for Each Major Federal Program**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

### **Report on Internal Control over Compliance**

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

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

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

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

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Clay County School District, as of and for the year ended June 30, 2013, and have issued our report thereon dated November 11, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

***Cloyd & Associates, PSC***

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2013

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CLAY 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 auditors' report issued		Unmodified	
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 auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<u>  ✓  </u> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

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

(continued)

**CLAY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year Ended June 30, 2013

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None

**CLAY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2013

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**Status of Prior Year Findings**

There were no prior year audit findings.

**MANAGEMENT LETTER COMMENTS**

Members of the Board of Education  
Clay County School District  
Manchester, Kentucky

In planning and performing our audit of the basic financial statements of Clay County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 11, 2013, on the basic financial statements of Clay County School District.

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

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 11, 2013

# CLAY COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS

JUNE 30, 2013

### Prior Year Comments – School Activity Funds

1. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders dated after invoices were noted at Clay County High School, Oneida Elementary, Clay County Middle School, Goose Rock Elementary, and Burning Springs Elementary. Instances of a failure to date the purchase orders were noted at Paces Creek Elementary, Hacker Elementary, and Big Creek Elementary. Instances of no purchase order were noted at Hacker Elementary.

*Deficiencies were corrected at Hacker Elementary, Clay County High School, Clay County Middle School, and Burning Springs Elementary. Deficiencies were not corrected at Big Creek Elementary, Oneida Elementary, Goose Rock Elementary, and Paces Creek Elementary.*

2. Multiple Receipt Forms were not used properly. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer." Instances of this deficiency were noted at Paces Creek Elementary, Big Creek Elementary, and Hacker Elementary.

*Deficiencies were corrected at Big Creek Elementary. Deficiencies were not corrected at Hacker Elementary and Paces Creek Elementary.*

3. Ticket requisitions were either not present or improperly issued. The Redbook States "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form." This deficiency was noted at Oneida Elementary, Paces Creek Elementary, and Big Creek Elementary.

*Deficiencies were corrected at Big Creek Elementary, Oneida Elementary, and Paces Creek Elementary.*

4. Invoices were not always used or present or were not always approved by two individuals or improperly dated. The Redbook states "The vendor invoice and/or the standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued." This deficiency was noted at Oneida Elementary, Goose Rock Elementary, Burning Springs Elementary, and Paces Creek Elementary. Instances of a failure to prepare an invoice were noted at Big Creek Elementary. Failure to date the invoice was also noted at Big Creek Elementary.

*Deficiencies were corrected at Big Creek Elementary, Oneida Elementary, Goose Rock Elementary, and Burning Springs Elementary. Deficiencies were not corrected at Paces Creek.*

### Current Year Comments –School Activity Funds

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

#### Hacker Elementary

1. Multiple Receipt Forms were not used properly. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer." These forms should be signed by the students turning in the money.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

Clay County High School

2. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

Big Creek Elementary

3. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of a failure to date the purchase orders were noted.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

4. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

Oneida Elementary

5. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of purchase orders dated after invoices were noted.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

6. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

Burning Springs Elementary

7. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer."

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

8. Ticket requisitions were either not present or improperly issued. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

Paces Creek Elementary

9. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the

sponsor and principal; before payment is obligated." Instances of purchase orders dated after invoices were noted

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

10. Multiple Receipt Forms were not used properly. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer."

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

11. Invoices were not always used or present. The Redbook states "The vendor invoice and/or the standard invoice must have the approval and signature of the principal and the faculty sponsor of the activity expending the monies before the payment process can be continued." Payments made from statement were noted.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

#### Clay County Middle School

12. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money. A copy of Form F-SA-6 or a copy of the pre-numbered receipt shall be retained by the teacher/sponsor and the original shall be given to the school treasurer."

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

13. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

#### Goose Rock Elementary

14. Purchase orders were not noted for all purchases or were improperly executed. The Redbook states that "to initiate a purchase, a purchase order (Form F-SA-7) shall be prepared and approved by the sponsor and principal; before payment is obligated." Instances of a failure to date the purchase orders were noted.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*

15. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment.

*Management response: Additional training and follow-up with bookkeepers will be implemented to help correct this deficiency.*