

**FAIRVIEW INDEPENDENT
SCHOOL DISTRICT**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS



**Kelley,
Galloway &
Company, PSC**

CERTIFIED PUBLIC ACCOUNTANTS

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Kelley,
Galloway &
Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, 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 the Fairview Independent School District (the "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 and 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 *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and 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 Fairview Independent School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 8 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 Fairview Independent School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. 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 non-major fund financial statements and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 non-major fund financial statements and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013, on our consideration of Fairview Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley, Galloway & Company, PSC

October 14, 2013

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Fairview Independent 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 this report.

FINANCIAL HIGHLIGHTS

- The beginning General Fund cash balance for the District was \$363,320. Additionally, \$301,472 in beginning cash and cash equivalents was restricted for grants, construction, food services and student activities and were accounted for in separate funds. The ending General Fund cash balance was (\$17,221), and there was \$1,647,484 in cash and cash equivalents in other funds.
- During fiscal year 2013, the District saw its financial condition deteriorate. Therefore, the District enacted a Utility Gross Receipts Tax levy during the year which became effective April 1, 2013 after it was unsuccessfully challenged by opponents. This provided much needed new revenue at the end of the year. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth decreased its funding level by \$70 per student Average Daily Attendance, which negatively impacted the District's finances for the year. The District ended the year with a 2.8% contingency balance.
- The General Fund had \$6.1 million in revenues including on-behalf payments, of which 77.9% consisted of the state funding (SEEK program), and 17.8% consisted of property and motor vehicle taxes, and 4% consisted of utility taxes. Excluding inter-fund transfers, there was \$6.4 million in General Fund expenditures during the year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$322,019 in bond payments during the 2012-2013 year. The District sold a \$2,645,000 bond issue during fiscal year 2013 to finance the renovations of Fairview High School.
- Total enrollment decreased from 866 students in 2012 to 849 in 2013. Average daily attendance was essentially unchanged at 766 students. The SEEK funding is based upon average daily attendance.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net 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 activities 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 result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 9 - 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated a uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. 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. The District's only proprietary fund is food service operations. Fiduciary funds account for activities of student groups and programs. All other activities of the District are included in the governmental funds.

The fund financial statements can be found on pages 11 - 20 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 financial statements can be found on pages 21 - 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position for the period ending June 30, 2013 as compared to June 30, 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current Assets	\$ 1,833,856	\$ 685,823
Noncurrent Assets	7,880,360	6,635,557
Total Assets	<u>9,714,216</u>	<u>7,321,380</u>
Current Liabilities	815,297	413,592
Noncurrent Liabilities	6,185,924	3,821,089
Total Liabilities	<u>7,001,221</u>	<u>4,234,681</u>
<u>Net Position</u>		
Invested in capital assets (net of debt)	1,361,922	2,378,272
Restricted	1,232,229	102,053
Unrestricted	118,844	606,374
Total Net Position	<u>\$ 2,712,995</u>	<u>\$ 3,086,699</u>

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal years ended June 30, 2013 and 2012, respectively:

	2013 <u>Amount</u>	2012 <u>Amount</u>
Revenues:		
Local revenue sources	\$ 1,527,600	\$ 1,227,476
State revenue sources	5,411,481	5,356,511
Indirect Federal sources	816,131	900,505
Other revenues	7,106	117,843
Interest income	8,731	11,549
Total revenues	<u>7,771,049</u>	<u>7,613,884</u>
Expenses:		
Instruction	3,972,721	4,090,402
Student support services	327,205	208,216
Instructional support	374,592	353,173
District administration	247,320	292,219
School administration	395,866	393,841
Business support	379,667	301,940
Plant operations	1,015,125	885,417
Student transportation	388,035	378,725
Community services	116,456	6,573
Food services	587,700	519,662
Debt service - interest	199,063	167,238
Total expenses before KSBIT	<u>8,003,750</u>	<u>7,597,406</u>
Extraordinary item - KSBIT	141,003	-
Total expenses	<u>8,144,753</u>	<u>7,597,406</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ (373,704)</u>	<u>\$ 16,478</u>

FUND FINANCIAL STATEMENTS

Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2013 and 2012, were \$6.1 and \$6 million, respectively.
- General fund budget to actual comparison varied slightly from line item to line item with the ending actual balance being \$167,096 more than budget, before interfund transfers. The increase resulted primarily from \$365,593 more in revenues as compared to the budget, with \$198,497 in expenditures less than the budget.
- The total cost of all programs and services of the Governmental Funds and Proprietary Funds was \$9.6 million and \$8.1 million for the fiscal years ended June 30, 2013 and 2012, respectively.
- Site Based Decision Making Councils expended 64.8% of the General Fund budget. Additionally, 15.8% was spent on maintenance and operations, 5% on District administration, 6.8% on transportation and 5.7% on business support services.

BUDGETARY IMPLICATIONS

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 budget for the 2013 - 2014 fiscal year with a 11% contingency. During the current year, the District enacted a Utility Gross Receipts Tax levy, which was effective April 1, 2013. This is expected to provide the much needed revenue in the 2013 - 2014 fiscal year to offset decreased funding from the Commonwealth.

Questions regarding this report should be directed to the Superintendent, William Musick, or to the Finance Director, Ernest P Sharp, II, at (606) 324-3877, or by mail at 2201 Main St. WW, Ashland, KY 41102.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,470,007	\$ 42,648	\$ 1,512,655
Receivables (net of allowances for uncollectibles):			
Taxes	206,251	-	206,251
Other	-	10,092	10,092
Intergovernmental - federal	82,589	22,269	104,858
Deferred bond costs, net	118,956	-	118,956
Capital assets, not being depreciated	2,010,800	-	2,010,800
Capital assets, being depreciated, net	5,707,176	43,428	5,750,604
Total assets	<u>9,595,779</u>	<u>118,437</u>	<u>9,714,216</u>
Liabilities			
Cash overdraft	20,543	-	20,543
Accounts payable	321,380	-	321,380
Deferred revenue	79,267	-	79,267
Portion due or payable within one year:			
Capital leases	29,107	-	29,107
Debt obligations	365,000	-	365,000
Noncurrent liabilities:			
KSBIT payable	141,003	-	141,003
Portion due or payable after one year:			
Capital leases	75,724	-	75,724
Debt obligations, net of discounts of \$60,349	5,929,651	-	5,929,651
Accrued sick leave	39,546	-	39,546
Total liabilities	<u>7,001,221</u>	<u>-</u>	<u>7,001,221</u>
Net Position			
Invested in capital assets, net of related debt	1,318,494	43,428	1,361,922
Restricted	1,157,220	75,009	1,232,229
Unrestricted	118,844	-	118,844
Total net position	<u>\$ 2,594,558</u>	<u>\$ 118,437</u>	<u>\$ 2,712,995</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 3,972,721	\$ 4,719	\$ 425,455	\$ -	\$ (3,542,547)	\$ -	\$ (3,542,547)
Support services:							
Students	327,205	-	-	-	(327,205)	-	(327,205)
Instructional staff	374,592	-	73,190	-	(301,402)	-	(301,402)
District administration	247,320	-	-	-	(247,320)	-	(247,320)
School administration	395,866	-	608	-	(395,258)	-	(395,258)
Business and other support services	379,667	-	17,462	-	(362,205)	-	(362,205)
Operation and maintenance of plant	1,015,125	-	-	-	(1,015,125)	-	(1,015,125)
Student transportation	388,035	-	-	-	(388,035)	-	(388,035)
Community services	116,456	-	78,638	-	(37,818)	-	(37,818)
Debt service - interest	199,063	-	-	436,145	237,082	-	237,082
Total governmental activities	<u>7,416,050</u>	<u>4,719</u>	<u>595,353</u>	<u>436,145</u>	<u>(6,379,833)</u>	<u>-</u>	<u>(6,379,833)</u>
Business-type activities:							
Food service	587,700	120,943	437,205	28,261	-	(1,291)	(1,291)
Total business-type activities	<u>587,700</u>	<u>120,943</u>	<u>437,205</u>	<u>28,261</u>	<u>-</u>	<u>(1,291)</u>	<u>(1,291)</u>
Total primary government	<u>\$ 8,003,750</u>	<u>\$ 125,662</u>	<u>\$ 1,032,558</u>	<u>\$ 464,406</u>	<u>\$ (6,379,833)</u>	<u>\$ (1,291)</u>	<u>\$ (6,381,124)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 1,000,175	\$ -	\$ 1,000,175
Motor vehicle					158,073	-	158,073
Utility					243,690	-	243,690
Intergovernmental revenues:							
State					4,730,648	-	4,730,648
Investment earnings					8,562	169	8,731
Other local revenues					7,106	-	7,106
Total general revenues					<u>6,148,254</u>	<u>169</u>	<u>6,148,423</u>
Extraordinary item - KSBIT assessment (Note 10)					<u>(141,003)</u>	<u>-</u>	<u>(141,003)</u>
Change in net position					<u>(372,582)</u>	<u>(1,122)</u>	<u>(373,704)</u>
Net position, June 30, 2012					<u>2,967,140</u>	<u>119,559</u>	<u>3,086,699</u>
Net position, June 30, 2013					<u>\$ 2,594,558</u>	<u>\$ 118,437</u>	<u>\$ 2,712,995</u>

The accompanying notes to financial statements are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ -	\$ -	\$ 1,469,870	\$ 137	\$ 1,470,007
Receivables (net of allowances for uncollectibles):					
Taxes	206,251	-	-	-	206,251
Other	-	82,589	-	-	82,589
Total assets	<u>\$ 206,251</u>	<u>\$ 82,589</u>	<u>\$ 1,469,870</u>	<u>\$ 137</u>	<u>\$ 1,758,847</u>
Liabilities and Fund Balances					
Liabilities:					
Cash overdraft	\$ 17,221	\$ 3,322	\$ -	\$ -	\$ 20,543
Accounts payable	8,593	-	312,787	-	321,380
Deferred revenue	-	79,267	-	-	79,267
Total liabilities	<u>25,814</u>	<u>82,589</u>	<u>312,787</u>	<u>-</u>	<u>421,190</u>
Fund balances:					
Restricted for capital expenditures	-	-	1,157,083	-	1,157,083
Restricted for debt service	-	-	-	137	137
Unassigned	180,437	-	-	-	180,437
Total fund balances	<u>180,437</u>	<u>-</u>	<u>1,157,083</u>	<u>137</u>	<u>1,337,657</u>
Total liabilities and fund balances	<u>\$ 206,251</u>	<u>\$ 82,589</u>	<u>\$ 1,469,870</u>	<u>\$ 137</u>	<u>\$ 1,758,847</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balances—total governmental funds		\$ 1,337,657
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,717,976
Bond issuance costs are not financial resources and therefore are not reported in the governmental funds financial statements.		118,956
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.		
Bonds payable	(6,294,651)	
Capital leases payable	(104,831)	
Accrued sick leave	(39,546)	
KSBIT payable	(141,003)	(6,580,031)
Net position of governmental activities		\$ 2,594,558

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 919,743	\$ -	\$ -	\$ 80,432	\$ 1,000,175
Motor vehicles	158,073	-	-	-	158,073
Utility	243,690	-	-	-	243,690
Interest income	4,965	-	-	3,597	8,562
Other local revenues	7,106	-	-	-	7,106
Intergovernmental - State	4,730,648	244,688	-	436,145	5,411,481
Intergovernmental - Indirect federal	-	350,665	-	-	350,665
Intergovernmental - Direct federal	4,719	-	-	-	4,719
Total revenues	<u>6,068,944</u>	<u>595,353</u>	<u>-</u>	<u>520,174</u>	<u>7,184,471</u>
Expenditures:					
Current:					
Instruction	3,440,450	437,705	-	-	3,878,155
Support services:					
Students	338,445	-	-	-	338,445
Instructional staff	261,662	73,190	-	-	334,852
District administration	294,862	-	-	-	294,862
School administration	395,115	608	-	-	395,723
Business and other support services	362,205	17,462	-	-	379,667
Operation and maintenance of plant	848,322	-	-	-	848,322
Student transportation	363,743	-	-	-	363,743
Community services	37,818	78,638	-	-	116,456
Facility acquisition and construction	-	-	1,561,224	-	1,561,224
Debt service	34,226	-	-	466,539	500,765
Total expenditures	<u>6,376,848</u>	<u>607,603</u>	<u>1,561,224</u>	<u>466,539</u>	<u>9,012,214</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(307,904)</u>	<u>(12,250)</u>	<u>(1,561,224)</u>	<u>53,635</u>	<u>(1,827,743)</u>
Other financing sources (uses):					
Proceeds from issuance of debt	-	-	2,645,000	-	2,645,000
Transfers in	76,770	12,250	45,234	298,097	432,351
Transfers out	(12,250)	-	-	(420,101)	(432,351)
Total other financing sources and uses	<u>64,520</u>	<u>12,250</u>	<u>2,690,234</u>	<u>(122,004)</u>	<u>2,645,000</u>
Net change in fund balances	(243,384)	-	1,129,010	(68,369)	817,257
Fund balances, June 30, 2012	<u>423,821</u>	<u>-</u>	<u>28,073</u>	<u>68,506</u>	<u>520,400</u>
Fund balances, June 30, 2013	<u>\$ 180,437</u>	<u>\$ -</u>	<u>\$ 1,157,083</u>	<u>\$ 137</u>	<u>\$ 1,337,657</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net change in fund balances—total governmental funds		\$ 817,257
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	1,547,666	
Depreciation expense	<u>(283,818)</u>	1,263,848
<p>Bond and capital lease proceeds are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net position.</p>		
		(2,645,000)
<p>Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:</p>		
Long-term portion of accrued sick leave		(18,003)
Amortization of deferred bond costs		(16,764)
Amortization of bond discount		(3,553)
KSBIT payable		(141,003)
<p>Costs related to bond issuance are recognized as expenditures of current financial resources in the fund financial statements, but are included as deferred costs in the statement of net position.</p>		
		48,617
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.</p>		
		<u>322,019</u>
Change in net position of governmental activities		<u><u>\$ (372,582)</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013**

	<u>Food Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 42,648
Receivables (net of allowances for uncollectibles)	
Intergovernmental - federal	22,269
Other	10,092
Total current assets	<u>75,009</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>43,428</u>
Total noncurrent assets	<u>43,428</u>
Total assets	<u><u>\$ 118,437</u></u>
Liabilities	
Current liabilities:	
Accounts payable	<u>\$ -</u>
Total current liabilities	<u>-</u>
Total liabilities	<u>-</u>
Net Position	
Invested in capital assets	43,428
Restricted	75,009
Total net position	<u>118,437</u>
Total liabilities and net position	<u><u>\$ 118,437</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 120,943
Total operating revenues	<u>120,943</u>
Operating expenses:	
Salaries and wages	179,999
Employee benefits	99,417
Contract services	18,062
Materials and supplies	279,559
Depreciation	10,663
Total operating expenses	<u>587,700</u>
Operating loss	<u>(466,757)</u>
Nonoperating revenues:	
Federal grants	381,182
Investment income	169
Donated commodities	28,261
State grants	4,745
On-behalf payments	51,278
Total nonoperating revenues	<u>465,635</u>
Decrease in net position	(1,122)
Net position, June 30, 2012	<u>119,559</u>
Net position, June 30, 2013	<u><u>\$ 118,437</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 120,943
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(268,049)
Payments to employees	<u>(228,138)</u>
Net cash used for operating activities	<u>(375,244)</u>
 Cash flows from noncapital financing activities:	
Government grants	<u>363,658</u>
Net cash provided by noncapital and related financing activities	<u>363,658</u>
 Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(8,382)</u>
Net cash used for capital and related financing activities	<u>(8,382)</u>
 Cash flows from investing activities:	
Interest received on investments	<u>169</u>
Net cash provided by investing activities	<u>169</u>
 Net decrease in cash and cash equivalents	(19,799)
 Cash and cash equivalents, June 30, 2012	<u>62,447</u>
 Cash and cash equivalents, June 30, 2013	<u>\$ 42,648</u>
 Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (466,757)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	10,663
Donated commodities	28,261
On-behalf payments	51,278
Change in assets and liabilities:	
Accounts receivable	(10,092)
Inventory	13,448
Accounts payable	<u>(2,045)</u>
 Net cash used for operating activities	<u>\$ (375,244)</u>
 Non-cash items:	
On-behalf payments	\$ 51,278
Donated commodities	28,261

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 138,151
Total assets	<u>138,151</u>
Liabilities	
Accounts payable	5,000
Due to students	<u>133,151</u>
Total liabilities	<u>138,151</u>
Net position held in trust	<u><u>\$ -</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 775,000	\$ 775,000	\$ 919,743	\$ 144,743
Motor vehicles	130,000	130,000	158,073	28,073
Utility	-	-	243,690	243,690
Interest income	10,000	10,000	4,965	(5,035)
Other local revenues	5,000	5,000	7,106	2,106
Intergovernmental - State	3,636,000	3,636,000	3,603,297	(32,703)
Intergovernmental - Federal	20,000	20,000	4,719	(15,281)
Total revenues	<u>4,576,000</u>	<u>4,576,000</u>	<u>4,941,593</u>	<u>365,593</u>
Expenditures:				
Current:				
Instruction	2,477,419	2,477,419	2,728,216	(250,797)
Support services:				
Students	175,875	175,875	267,722	(91,847)
Instructional staff	200,251	200,251	208,531	(8,280)
District administration	220,080	220,080	249,385	(29,305)
School administration	271,733	271,733	325,398	(53,665)
Business and other support services	271,018	271,018	280,785	(9,767)
Operation and maintenance of plant	644,028	644,028	779,989	(135,961)
Student transportation	240,674	240,674	337,427	(96,753)
Community services	-	-	37,818	(37,818)
Contingency	474,922	474,922	-	474,922
Debt service	75,000	75,000	34,226	40,774
Total expenditures	<u>5,051,000</u>	<u>5,051,000</u>	<u>5,249,497</u>	<u>(198,497)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(475,000)</u>	<u>(475,000)</u>	<u>(307,904)</u>	<u>167,096</u>
Other financing sources (uses):				
Transfers in	-	-	76,770	76,770
Transfers out	-	-	(12,250)	(12,250)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>64,520</u>	<u>64,520</u>
Net change in fund balances	<u>(475,000)</u>	<u>(475,000)</u>	<u>(243,384)</u>	<u>231,616</u>
Fund balance, June 30, 2012	<u>475,000</u>	<u>475,000</u>	<u>423,821</u>	<u>(51,179)</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,437</u>	<u>\$ 180,437</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 1,127,351	
On-behalf payments:				
Instruction			(712,234)	
Support Services				
Students			(70,723)	
Instruction Staff			(53,131)	
District administration			(45,477)	
School administration			(69,717)	
Business and other support services			(81,420)	
Operation and maintenance of plant			(68,333)	
Student transportation			<u>(26,316)</u>	
Fund balance, June 30, 2013 (GAAP basis)			<u>\$ 180,437</u>	

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 169,952	\$ 181,183	\$ 244,688	\$ 63,505
Intergovernmental - Indirect federal	388,776	396,354	350,665	(45,689)
Total revenues	<u>558,728</u>	<u>577,537</u>	<u>595,353</u>	<u>17,816</u>
Expenditures:				
Current:				
Instruction	480,470	499,279	437,705	61,574
Support services:				
Instructional staff	5,178	5,178	73,190	(68,012)
School administration	-	-	608	(608)
Business and other support services	-	-	17,462	(17,462)
Community services	73,080	73,080	78,638	(5,558)
Total expenditures	<u>558,728</u>	<u>577,537</u>	<u>607,603</u>	<u>(30,066)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(12,250)</u>	<u>(12,250)</u>
Other financing sources (uses):				
Transfers in	-	-	12,250	12,250
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>12,250</u>	<u>12,250</u>
Net change in fund balances	-	-	-	-
Fund balance, June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

(1) REPORTING ENTITY

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

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

The 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:

Fairview Independent School District Finance Corporation

On September 27, 1993 the Fairview Independent Board of Education resolved to authorize the establishment of the Fairview Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fairview Independent School District also comprise the Corporation's Board of Directors.

Copies of component unit reports may be obtained from the District's Finance office at 2201 Main St. WW, Ashland, Kentucky 41102.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Fairview Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information

that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-wide statements are prepared using the economic resources measurement focus. 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 statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and 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 net total assets. 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.

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balance is considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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.

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

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 Fund (FSPK Building Fund) 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.
3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction in accordance with the District's facilities plan. This is a major fund of the District.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Type (Enterprise Fund)

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

III. Fiduciary Fund Types (includes agency and trust funds)

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

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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.

Non-exchange 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, revenues from property taxes are 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 non-exchange transactions must also be available before they can be recognized.

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.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. 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 costs, such as depreciation, are not recognized in governmental funds.

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.

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. 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 five thousand dollars (\$5,000). The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, other than land, 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
Vehicles	5-10 years
Food service equipment	5-12 years
Other general equipment	7-10 years

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to October 1, of each year on the assessed value listed as of the prior January 1 for all real and business property located in the District. The assessed value of property upon which the levy for 2013 fiscal year was based was \$141,110,202.

The tax rates assessed for the year ended June 30, 2013 to finance general fund operations were \$.689 on real estate and \$.689 on tangible property per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 of the following year. Current tax collections for the year ended June 30, 2013 were 94.8% of the amount levied.

The District levies a utilities gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, with the District's boundaries, of telegraphic communications services, cablevision services, electric power, water and gas.

In-Kind

The District receives commodities from U.S.D.A. The amounts of commodities are recorded in the accompanying financial statements at their estimated fair market values.

Interfund Balances

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.

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 difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (12) for these amounts which were not known by management at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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 the proprietary fund are reported in the proprietary fund financial statements.

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

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund for Governmental Fund types.

When committed, assigned and unassigned resources are available for use, it is the District's policy to use committed and assigned resources first, then unassigned resources as they are needed.

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 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 fund. For the District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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 requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Future Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 62, *Codification of Accounting and Financial Reporting Guidance*, that incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of GASB No. 62 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the District was not required to change the reporting of current or past transactions.

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, that provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The requirements of GASB No. 63 are effective for fiscal year 2013 and thereafter. As a result of implementing this statement, the computation of equity on the Statement of Net Position was changed and equity was retitled as "net position".

The Governmental Accounting Standards Board (GASB) has recently issued GASB No. 65, *Items Previously Reported as Assets and Liabilities* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenses. The District has not completed the process of the evaluation of GASB No. 65; however, the District does expect it to have an impact on its future financial statements.

The Governmental Accounting Standards Board (GASB) issued GASB No. 68, *Accounting and Financial Reporting for Pensions*, which changes the way pensions are reported on the financial statements of employers. Employers participating in a multiple-employer cost-sharing plan will be required to report net pension liability on the entity-wide statements for their proportionate share of the liability. Districts will be required to record net pension liability for their share of the liability associated with employees participating in County Employees Retirement System (CERS) as well as any district-sponsored pension plans. There will be little to no impact on the balance sheets of the governmental funds. Additional note disclosures and required supplementary information (RSI) also are addressed in the standard. Kentucky Department of Education will be working with KTRS and Kentucky Retirement Systems in the months ahead to provide guidance for the implementation issues facing school districts. The standard is effective for fiscal year ending June 30, 2015.

(3) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2013, the carrying amount of the District's cash and cash equivalents was \$1,630,263 and the bank balances totaled \$1,855,832. Of the total bank balances, \$250,000 was covered by Federal depository insurance, and the remaining balance was covered by collateral held by the pledging bank in the District's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risks are as follows:

- Category 1 Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
- Category 2 Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits, which are not collateralized or insured.

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

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

(4) CAPITAL ASSETS

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

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
<u>Governmental Activities</u>				
Land	\$ 530,582	\$ -	\$ -	\$ 530,582
Construction in progress	-	1,480,218	-	1,480,218
Land improvements	693,096	15,448	-	708,544
Buildings and improvements	7,383,393	-	-	7,383,393
Technology equipment	647,509	-	-	647,509
General equipment	268,395	52,000	-	320,395
Vehicles	548,592	-	-	548,592
Totals	<u>10,071,567</u>	<u>1,547,666</u>	<u>-</u>	<u>11,619,233</u>
Less: accumulated depreciation				
Land improvements	258,570	30,196	-	288,766
Buildings and improvements	2,360,145	146,960	-	2,507,105
Technology equipment	445,022	56,511	-	501,533
General equipment	150,850	16,587	-	167,437
Vehicles	402,852	33,564	-	436,416
Total accumulated depreciation	<u>3,617,439</u>	<u>283,818</u>	<u>-</u>	<u>3,901,257</u>
Governmental Activities Capital Assets - Net	<u>\$ 6,454,128</u>	<u>\$ 1,263,848</u>	<u>\$ -</u>	<u>\$ 7,717,976</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 278,201	\$ 8,382	\$ -	\$ 286,583
Less: accumulated depreciation Food service equipment	<u>232,492</u>	<u>10,663</u>	<u>-</u>	<u>243,155</u>
Business-Type Activities Capital Assets - Net	<u>\$ 45,709</u>	<u>\$ (2,281)</u>	<u>\$ -</u>	<u>\$ 43,428</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 76,563
Student support services	4,208
Instructional staff support	39,740
District administration	4,458
District and other support services	143
Plant operation and maintenance	134,414
Student transportation	24,292
	<u>\$ 283,818</u>

(5) LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as debt and lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Fairview Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission aggregating \$7,540,000, and to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$297,898.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Issue of 1996	\$ 120,000	5.0% - 5.75%
Issue of 2004-KISTA	61,252	1.0% - 3.5%
Issue of 2005	2,055,000	3.25% - 4.3%
Issue of 2005-KISTA	67,887	3.0% - 3.625%
Issue of 2006	270,000	4.3%
Issue of 2007-KISTA	76,995	3.625% - 3.750%
Issue of 2008	2,125,000	2.0% - 3.5%
Issue of 2009-KISTA	91,764	2.0% - 3.9%
Issue of 2011	325,000	2.0% - 3.2%
Issue of 2012	2,645,000	85% - 2.6%

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

On March 12, 2008, the District issued \$2,125,000 in refunding bonds with an average rate of 5.3% to advance refund \$1,930,000 of the series of 1999 bonds with an average rate of 6.8%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. The bonds were called during the 2010 fiscal year with payment being made by the escrow agent.

As a result of this advance refunding, the District reduced its total debt service payments over the next twelve years by \$144,086 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$109,690.

The 2008, 2011 and 2012 bond issues of \$2,125,000, \$325,000 and \$2,645,000, respectively were sold at a discount of \$17,850, \$4,450 and \$48,617, respectively, which is being amortized over the life of the respective debt. A summary of activity in bond obligations and other debts is as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2013</u>
1996 Issue	\$ 45,000	\$ -	\$ 5,000	\$ 40,000
2004 Issue-KISTA	11,266	-	5,542	5,724
2005 Issue	1,780,000	-	50,000	1,730,000
2005 Issue-KISTA	20,113	-	7,335	12,778
2006 Issue	220,000	-	10,000	210,000
2007 Issue-KISTA	39,493	-	7,965	31,528
2008 Issue	1,660,000	-	195,000	1,465,000
2009 Issue-KISTA	63,534	-	8,733	54,801
2011 Issue	295,000	-	30,000	265,000
2012 Issue	-	2,645,000	-	2,645,000
Capital lease	2,444	-	2,444	-
KSBIT liability	-	141,003	-	141,003
Accrued sick leave	21,543	18,003	-	39,546
Discount on bonds	(15,285)	(48,617)	(3,553)	(60,349)
Total	\$ 4,143,108	\$ 2,755,389	\$ 318,466	\$ 6,580,031

In connection with the bond issues of 1996, 2005, 2006, 2008, 2011 and 2012, the District entered into a participation agreement with the School Facility Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity on all bond issues.

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

Year	Fairview Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2014	\$ 195,673	\$ 122,352	\$ 169,327	\$ 63,859	\$ 551,211
2015	201,411	116,721	173,589	59,599	551,320
2016	201,919	110,803	178,081	55,106	545,909
2017	214,475	104,474	180,525	50,381	549,855
2018	222,887	97,094	177,113	45,627	542,721
2019-2023	1,135,489	363,970	689,511	162,613	2,351,583
2024-2028	989,450	159,026	515,550	77,734	1,741,760
2029-2033	733,845	47,682	376,155	23,773	1,181,455
	<u>\$ 3,895,149</u>	<u>\$ 1,122,122</u>	<u>\$ 2,459,851</u>	<u>\$ 538,692</u>	<u>\$ 8,015,814</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2013, are as follows:

Year	Principal	Interest	Total
2014	\$ 29,107	\$ 3,677	\$ 32,784
2015	24,234	2,693	26,927
2016	16,846	1,863	18,709
2017	17,483	1,284	18,767
2018	8,428	652	9,080
2019-2020	8,733	341	9,074
	<u>\$ 104,831</u>	<u>\$ 10,510</u>	<u>\$ 115,341</u>

KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District's liability would be \$141,003. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. The District has recorded this estimated amount in their long-term obligations since ultimate payment is probable and is included as an extraordinary item on the Statement of Activities.

(6) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments, and known retirements during the next fiscal year.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources.

(7) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Type	From	To	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 12,250
Debt Service	FSPK Building Fund	Construction	Capital Project	40,409
Debt Service	FSPK Building Fund	Debt Service	Bond Payments	298,097
Capital	Capital Outlay	Construction	Capital Project	4,825
Operating	Capital Outlay	General	Operations	76,770

(8) RETIREMENT PLANS

A. Kentucky Teachers Retirement System:

The Fairview Independent School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

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

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

The payroll for employees covered under KTRS was \$3,353,613. For the years ended June 30, 2013, 2012, and 2011, the Commonwealth of Kentucky contributed \$426,018, \$392,757, and \$334,267, respectively, to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012, and 2011 were \$54,988, \$44,354, and \$51,037, respectively, which represents those employees covered by Federal programs.

B. Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical

Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2012-2013 fiscal year.

C. County Employee's Retirement System:

The District contributes to the County Employee's Retirement System ("CERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. It covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the CERS. CERS provides for retirement, disability, and death benefits to plan members. Cost of living adjustments are provided at the discretion of the State legislature.

The CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or from the KRS website at <https://kyret.ky.gov>.

Plan members are required to contribute 5% of their annual creditable compensation, and the District is required to contribute 19.55% of the employee's total compensation. Plan members hired after July 1, 2008 contribute an additional 1% towards health insurance. The contribution requirements of CERS members and the District are established and may be amended by the CERS Board of Trustees. The payroll for employees covered under CERS was \$983,825. The District's contributions to CERS for the years ending June 30, 2013, 2012, and 2011 were \$192,338, \$197,802, and \$166,555, respectively, equal to the required contributions for the year.

(9) CONTINGENCIES

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 the grantors' review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during the year that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claim payments. Under the novation method, the District's liability would be \$141,003. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014.

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

(11) COBRA

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

(12) ON-BEHALF PAYMENTS

For fiscal year 2013, the Commonwealth of Kentucky contributed payments on behalf of the Fairview Independent School District as follows:

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 426,018
Health Insurance Plan	709,330
Technology	43,281
Debt Service	164,852
	<u>\$ 1,343,481</u>

With the exception of the amount for debt service, these amounts are included in the Government-wide statement of activities and the Governmental Fund statement of revenues, expenditures, and changes in fund balances as state revenues and expenses allocated to the different functions in the same proportion as full-time employees.

SUPPLEMENTARY INFORMATION

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013**

	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ -	\$ 137	\$ -	\$ 137
Accounts receivable	-	-	-	-
Total assets	\$ -	\$ 137	\$ -	\$ 137
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted for capital expenditures	-	-	-	-
Restricted for debt service	-	137	-	137
Total fund balance	-	137	-	137
Total liabilities and fund balances	\$ -	\$ 137	\$ -	\$ 137

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
REVENUES:				
From local sources -				
Property taxes	\$ -	\$ -	\$ 80,432	\$ 80,432
Earnings on investments	-	3,597	-	3,597
Intergovernmental - State	76,770	164,852	194,523	436,145
Total revenues	<u>76,770</u>	<u>168,449</u>	<u>274,955</u>	<u>520,174</u>
EXPENDITURES:				
Current -				
Debt service	-	466,539	-	466,539
Total expenditures	<u>-</u>	<u>466,539</u>	<u>-</u>	<u>466,539</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>76,770</u>	<u>(298,090)</u>	<u>274,955</u>	<u>53,635</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	298,097	-	298,097
Operating transfers out	(81,595)	-	(338,506)	(420,101)
Total other financing sources (uses)	<u>(81,595)</u>	<u>298,097</u>	<u>(338,506)</u>	<u>(122,004)</u>
NET CHANGE IN FUND BALANCE	(4,825)	7	(63,551)	(68,369)
FUND BALANCE JUNE 30, 2012	<u>4,825</u>	<u>130</u>	<u>63,551</u>	<u>68,506</u>
FUND BALANCE JUNE 30, 2013	<u>\$ -</u>	<u>\$ 137</u>	<u>\$ -</u>	<u>\$ 137</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance June 30, 2012	Receipts	Disburse- ments	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2013
	\$	\$	\$	\$	\$	\$
Academic	-	8	-	8	-	8
Academic - Middle School	207	-	78	129	-	129
Annual	5,917	6,326	-	12,243	(5,000)	7,243
Archery	-	350	350	-	-	-
Athletic Ads	-	-	-	-	-	-
Athletic Boosters	12,740	5,150	17,772	118	-	118
Athletic Misc.	74	-	-	74	-	74
Athletic Revolving	-	-	-	-	-	-
Athletics	406	45,513	45,919	-	-	-
Band A	597	22,398	21,197	1,798	-	1,798
Band B	-	-	-	-	-	-
Band Uniform	-	-	-	-	-	-
Baseball	400	12,678	13,078	-	-	-
Bowling	-	1,531	1,531	-	-	-
Boys Basketball	468	27,025	27,493	-	-	-
Boys Basketball - Middle School	538	5,086	3,835	1,789	-	1,789
Boys Golf	2,045	1,739	3,784	-	-	-
Cheerleaders - Activity	1,820	25,268	17,899	9,189	-	9,189
Cheerleaders - Middle School	-	7,203	2,234	4,969	-	4,969
Cbeerleaders - Varsity	-	383	383	-	-	-
Chorus	-	6,036	2,106	3,930	-	3,930
Chorus Activity	4,671	330	2,198	2,803	-	2,803
Coke - ACT	67	17	-	84	-	84
Coke - High School	83	2,624	1,828	879	-	879
Coke - Staff	559	865	938	486	-	486
Cross Country	805	6,694	4,830	2,669	-	2,669
Drama	215	677	358	534	-	534
Elementary Academic Team	1,153	50	61	1,142	-	1,142
Elementary Basketball	606	19	-	625	-	625
Elementary General	2,166	7,433	9,599	-	-	-
Elementary Grants	100	-	-	100	-	100
Elementary Library	1,240	17,403	17,001	1,642	-	1,642
FBLA Club	333	1,016	1,349	-	-	-
FCA	-	337	54	283	-	283
FEA	-	96	-	96	-	96
Fifth Grade Banquet	100	1,244	1,125	219	-	219
Football	11,108	142,610	153,718	-	-	-
Football - Middle School	-	22,396	22,344	52	-	52
Forensics	-	991	-	991	-	991
FRYSC	54,708	61,528	60,794	55,442	-	55,442
Girls Basketball	200	25,696	25,769	127	-	127
Girls Golf	-	2,013	2,013	-	-	-
Girls STEM	-	700	354	346	-	346
High School General	-	897	897	-	-	-
High School Grants	1,289	700	300	1,689	-	1,689
High School Bookstore	2,345	198	15	2,528	-	2,528
High School Library	5,000	20,000	21,379	3,621	-	3,621
Honor Society	186	880	897	169	-	169
Honor Society - Middle School	14	-	-	14	-	14
Interest	5,791	359	1,730	4,420	-	4,420
Junior Class	620	6,415	5,652	1,383	-	1,383
Leo Club	1,160	770	572	1,358	-	1,358
Middle School Special	-	-	-	-	-	-
Poetry Outloud	-	-	-	-	-	-
Parent Teacher Org	939	204	265	878	-	878
Scholarship Fund	6,305	915	1,200	6,020	-	6,020
School Patrol	5,254	6,319	6,437	5,136	-	5,136
School Pictures - Elementary	1,969	4,405	5,658	716	-	716
School Pictures - High School	-	3,487	3,462	25	-	25
School Store - Elementary	-	-	-	-	-	-

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balance June 30, 2012	Receipts	Disburse- ments	Cash Balance June 30, 2013	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2013
Senior Class	-	3,005	3,005	-	-	-
Senior Class Special	-	42,392	42,392	-	-	-
Sixth Grade Banquet	40	325	40	325	-	325
Softball	-	6,976	6,976	-	-	-
Spanish Club	165	589	346	408	-	408
Special Education	-	165	-	165	-	165
Spirit Club	-	-	-	-	-	-
State Textbooks - Elementary	226	-	-	226	-	226
State Textbooks - High School	1,187	589	-	1,776	-	1,776
STLP	-	852	852	-	-	-
STLP Veterans Memorial	-	1,375	1,251	124	-	124
Student Council	4	-	-	4	-	4
Student Deposits	-	55,029	55,029	-	-	-
Tennis	-	1,890	1,890	-	-	-
Track	-	15,771	15,671	100	-	100
Video Yearbook	4,084	605	2,093	2,596	-	2,596
Volleyball	833	8,874	9,328	379	-	379
Yearbook - Elementary	1,709	1,276	1,661	1,324	-	1,324
	<u>\$ 142,446</u>	<u>\$ 646,695</u>	<u>\$ 650,990</u>	<u>\$ 138,151</u>	<u>\$ (5,000)</u>	<u>\$ 133,151</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-12	199,187	169,667
EduJobs	84.410	EJOB00-10	1,443	1,443
Special Education Cluster (IDEA):				
Special Education Grants to States -IDEA, Part B	84.027	3810002-12	161,206	138,309
Special Education Grants to States -IDEA, Part B	84.027	3810002-11	12,129	12,129
Special Education Preschool Grants	84.173	3800002-12	10,795	10,795
				<u>161,233</u>
Improving Teacher Quality State Grants	84.367	3230002-12	25,166	16,735
Race to the Top Grant	84.395	3960002-11	1,587	1,587
Total U.S. Department of Education				<u>350,665</u>
<u>U.S. Department of Agriculture</u>				
Child Nutrition Cluster:				
Passed through State Department of Education:				
National School Lunch Program	10.555	7750002-13	-	203,417 *
National School Lunch Program	10.555	7750002-12	-	60,613 *
School Breakfast Program	10.553	7760005-13	-	85,113 *
School Breakfast Program	10.553	7760005-12	-	25,975 *
				<u>375,118</u>
Non-Cash Assistance				
National School Lunch Program - Food Donation	10.555	7750002-12	-	28,261 *
Total Child Nutrition Cluster				<u>403,379</u>
Child & Adult Care Food Program	10.558	7790021-13	-	6,064
Total U.S. Department of Agriculture				<u>409,443</u>
Total Federal Assistance				<u>\$ 760,108</u>

* Denotes major program.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fairview Independent School District under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Fairview Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, no commodities were on hand and included in inventory.



Kelley,
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Company, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- 1200 CORPORATE COURT • P. O. BOX 990 • ASHLAND, KENTUCKY 41105-0990 •
- Phone (606) 329-1811 • Fax (606) 329-8756 • E-mail contact@kelleygalloway.com • Web site www.kelleygalloway.com •

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fairview Independent School District (the "District") as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 14, 2013. 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; OMB Circular A-133; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. [2013-01 and 2013-02].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2013-02.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Kelley, Sullivan & Company, PSC

October 14, 2013



Kelley,
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Company, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Fairview Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. Fairview Independent 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 Fairview Independent 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 the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and 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 Fairview Independent 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 Fairview Independent School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Fairview Independent 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Fairview Independent 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.

Purpose of this Report

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

Katley, Anthony & Company, PSC

October 14, 2013

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

A. SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? x yes _____ none reported

Noncompliance material to the financial statements noted? x yes _____ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Type of audit auditor's 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 x no

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2013:

Child Nutrition Cluster (10.553 and 10.555)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee x yes _____ no

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

B. FINANCIAL STATEMENT FINDINGS

2013-01 AUDIT ADJUSTMENTS

Condition: While performing our audit on the balance sheet and annual financial report (AFR) provided by the District, we noted several account balances that required adjustments. These adjustments included the following:

- Additional accounts payable
- Commodities received from the USDA
- Additional accounts receivable

Criteria: All required year-end entries should be posted to the balance sheet and the AFR as part of the annual closing process.

Cause: Historically, the District has not recorded the identified adjustments and has relied upon the audit to identify the correct balances.

Effect: Several account balances were misstated.

Recommendation: We recommend the District record all required adjustments to account balances as part of the annual closing process.

Management's response and corrective action plan: In the future, the District will attempt to make the appropriate entries to record similar transactions identified in the audit adjustments.

2013-02 ACTIVITY FUNDS - BUDGETS

Condition: Receipt and expenditure budgets are not being prepared and submitted to the board for individual activity funds.

Criteria: The Redbook requires budgets for each fund to be prepared by fund sponsors and submitted to the school principal by April 15th. The principal must then submit a combined budget with the individual fund budgets to the Superintendent by May 15th. Local board approval of school activity budgets and fund-raising activities should be completed by the end of May for the following year.

Effect: Noncompliance with Redbook requirements.

Recommendation: Receipt and expenditure budgets should be prepared in accordance with Redbook guidelines (prepared by activity fund sponsor and submitted by the principal) and submitted annually to the Board for approval.

Management's Response and corrective action plan: The School Board and management are quite concerned with the level of spending that is occurring with certain sports programs at Fairview High School. The Board is now adamant that the District needs to become compliant with the Red Book. The District will be working with all stake holders to make this happen.

Mr. Ernst P. Sharp, II, Finance Officer, is responsible for implementing the above corrective actions.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2013

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted in current year.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Finding

Findings/Noncompliance

2012-01

We recommend the District record all required adjustments to account balances as part of the annual closing process.

Status

Repeat finding - See 2013-01.



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Fairview Independent School District
Ashland, Kentucky

In planning and performing our audit of the financial statements of Fairview Independent School District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 14, 2013, on the financial statements of the 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.

Kelley, Galloway & Company, PSC

October 14, 2013

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2013

Credit Card Purchases

Condition: While reviewing the credit card statement for January 2013, we noted that full documentation was not available for three purchases totaling approximately \$1,400. We were able to obtain a signed purchase order and oral confirmation that the goods purchased were received. However, a detailed invoice of the items purchased could not be provided.

Criteria: Board policy states that no bill should be paid without the following supporting documentation:

1. A purchase order signed by the Superintendent or the Superintendent designee;
2. An invoice as to goods or services received;
3. Confirmation that invoiced materials were received in accurate quantity and in good order.

Effect: Violation of Board policy.

Recommendation: The District should obtain a detailed invoice for all purchases through the District's credit card to comply with Board policy.

Management's Response: The District has always maintained extremely tight control over the District's credit card. This is the first time that the issue has been raised on my watch. The District is confident that this was an isolated event and we will redouble our efforts to make sure we are compliant in the future.

Activity Funds - Fundraisers

Condition: We noted that profits from the sale of concessions and fundraisers are not being monitored for reasonableness. Additionally, the Inventory Control Worksheet (F-SA-5) and School Fund Raising Worksheet (F-SA-2B) are not being utilized to monitor activities.

Criteria: The Accounting Procedures for Kentucky School Activity Funds ("Redbook") states that fundraisers and inventory should be monitored for reasonableness using the prescribed forms.

Effect: Noncompliance with Redbook requirements.

Recommendation: Monitor fundraiser profits for reasonableness and use the forms included in the Redbook to document compliance.

Management's Response: As part of working with the stake holders to get our schools in Red Book compliance we will be stressing the need to monitor the sales of concessions and fundraisers for reasonableness.

Mr. Ernst P. Sharp, II, Finance Officer, is responsible for implementing the above corrective actions.

Status of Prior Year Management Points

The two conditions described in prior year's letter concerning activity funds (budget and fundraisers) were repeated in the current year. All other prior year conditions have been implemented and corrected. The corrective action plan is the management response for each condition.