

KNOX COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

with

REPORT OF INDEPENDENT AUDITORS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, 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 Knox County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 29, 2013, on our consideration of Knox County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Knox County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 29, 2013

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) For the year ended June 30, 2013

The management of Knox County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2013. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District, not including investments (cash equivalents) of \$1,229,364, was \$7,992,369 in 2013 and \$6,984,389 in 2012. In 2013 and 2012, cash of \$4,224,106 and \$746,141, respectively, was reserved for capital projects. In 2013, cash of \$1,126,881 was assigned for purchase obligations.
- The General Fund had \$34,100,391 in revenue, excluding interfund transfers and proceeds from the sale of assets, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$35,283,779 in General Fund expenditures.
- Governmental Capital Assets had a net increase of \$7,891,433 during the current fiscal year. Business-Type Activities Capital Assets had a net decrease of \$34,950 during the current fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations. The total debt increased by \$10,680,000 during the current fiscal year.

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 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

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED For the year ended June 30, 2013

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are primarily supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on the table of contents of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents 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 financial statements can be found on pages 9 to 18 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 are still outstanding. The District used 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.

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
For the year ended June 30, 2013

Net Position for the period ending June 30, 2013

Fiscal year 2013 government-wide net position compared to 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 14,364,430	\$ 12,458,294
Capital assets	<u>64,076,737</u>	<u>55,212,066</u>
Total Assets	<u>78,441,167</u>	<u>67,670,359</u>
Current liabilities	6,794,775	5,294,727
Noncurrent liabilities	<u>43,946,551</u>	<u>33,330,219</u>
Total Liabilities	<u>50,741,326</u>	<u>38,624,946</u>
Net investment in capital assets, net of debt	18,211,737	19,839,754
Restricted net position	6,141,328	3,878,591
Unrestricted net position	<u>3,346,776</u>	<u>5,327,068</u>
Total Net Position	<u>\$ 27,699,841</u>	<u>\$ 29,045,413</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$25,797,530; proprietary assets exceeded liabilities by \$1,902,311 and total assets exceeded liabilities by \$27,699,841 at June 30, 2013.

The District had an overall decrease in unrestricted net position of \$1,980,292, comprised of a decrease in governmental activities unrestricted net position of \$1,980,292.

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

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
For the year ended June 30, 2013

	<u>2013</u>	<u>2012</u>
Revenues and other financing sources		
Local revenue sources	\$ 6,997,633	\$ 6,558,785
State revenue sources	32,438,577	33,308,947
Federal revenue	<u>6,857,800</u>	<u>7,417,179</u>
Total Revenue	<u>46,294,010</u>	<u>47,284,910</u>
Expenditures and other financing uses		
Instruction	27,921,959	28,705,549
Student support services	2,276,876	2,509,323
Instructional support	1,625,188	1,828,869
District administration	824,603	685,028
School administration	2,286,282	2,237,057
Business operations	877,421	791,273
Plant operation and maintenance	4,418,629	4,405,937
Student transportation	3,503,808	3,377,047
Other instructional	45,724	32,332
Community services	491,929	533,251
Debt service	3,167,631	3,312,351
Facilities acquisition and construction	<u>9,299,862</u>	<u>104,892</u>
Total expenditures	<u>56,739,912</u>	<u>48,522,909</u>
Excess revenues (expenditures)	<u>(10,445,903)</u>	<u>(1,237,999)</u>
Other financing sources (uses)		
Bond proceeds	12,775,000	-
Transfers in	1,941,363	577,018
Transfers out	(1,900,148)	(559,585)
Proceeds from refunding of bonds	<u>-</u>	<u>99,340</u>
Total other financing sources (uses)	<u>12,816,215</u>	<u>116,773</u>
Net change in fund balance	<u>\$ 2,370,313</u>	<u>\$ (1,121,227)</u>

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

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED For the year ended June 30, 2013

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$1,512,634 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2013 were \$34,100,391 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$1,200,799 more than budget or 3.65% more than budget. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$7,346,543 that were not budgeted. When these are eliminated, revenues compared to budget were \$6,145,744 or 18.68% less than anticipated.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2013 was \$35,283,779.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$3,945,385 less than budget or 10.06% less than budget. This is primarily due to recording on-behalf payments made by the State of Kentucky of \$7,346,543 that were not budgeted. When these are eliminated, expenditures compared to budget were \$11,291,928 or 28.78% less than anticipated.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent at 606-546-3157, ext. 2400, Director of Financial Services at 606-546-3157, ext. 2425, or by mail at 2200 Daniel Boone Drive, Barbourville, Kentucky 40906.

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,531,681	\$ 460,688	\$ 7,992,369
Investments	1,229,364	-	1,229,364
Prepaid expense	7,000	-	7,000
Accounts receivable:			
Taxes	236,475	-	236,475
Other	3,187,139	1,846	3,188,985
Intergovernmental - State	43,342	-	43,342
Intergovernmental - Federal	1,386,066	228,212	1,614,278
Inventory	-	50,771	50,771
Bond issue costs, net	1,008,189	-	1,008,189
Capital Assets, net			
Nondepreciable	11,452,543	-	11,452,543
Depreciable	50,454,999	1,161,007	51,616,006
Total assets	<u>76,536,797</u>	<u>1,902,524</u>	<u>78,439,321</u>
LIABILITIES			
Accounts payable	2,547,634	213	2,547,847
Deferred revenue	261,468	-	261,468
Accrued salaries and benefits payable	295,356	-	295,356
Payroll taxes payable	811,725	-	811,725
Current maturities of bond obligations	2,275,000	-	2,275,000
Current portion of accumulated sick leave	120,687	-	120,687
Current portion of capital lease obligations	11,017	-	11,017
Interest payable	469,829	-	469,829
Noncurrent maturities of bond obligations	43,590,000	-	43,590,000
Noncurrent portion of accumulated sick leave	345,534	-	345,534
Noncurrent portion of capital lease obligations	11,017	-	11,017
Total liabilities	<u>50,739,267</u>	<u>213</u>	<u>50,739,480</u>
NET POSITION			
Net investment in capital assets	17,050,730	1,161,007	18,211,737
Restricted for:			
Capital expenditures	4,224,106	-	4,224,106
Other	1,175,918	741,304	1,917,222
Unrestricted	3,346,776	-	3,346,776
Total net position	<u>\$ 25,797,530</u>	<u>\$ 1,902,311</u>	<u>\$ 27,699,841</u>

KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 29,247,937	\$ -	\$ 11,704,569	\$ -	\$ (17,543,367)	\$ -	\$ (17,543,367)
Student	2,276,876	-	576,986	-	(1,699,890)	-	(1,699,890)
Instructional support	1,634,583	-	741,839	-	(892,744)	-	(892,744)
District administration	838,696	-	164,853	-	(673,843)	-	(673,843)
School administration	2,287,866	-	494,559	-	(1,793,307)	-	(1,793,307)
Business operations	878,029	-	247,280	-	(630,749)	-	(630,749)
Plant operations and maintenance	4,467,582	6,550	1,071,545	-	(3,389,487)	-	(3,389,487)
Student transportation	3,708,762	-	906,692	-	(2,802,070)	-	(2,802,070)
Other instructional	45,724	-	164,853	-	119,129	-	119,129
Community services	494,646	-	412,133	-	(82,513)	-	(82,513)
Bond issue cost amortization	112,642	-	-	-	(112,642)	-	(112,642)
Interest on long-term debt	1,100,084	-	-	2,753,425	1,653,341	-	1,653,341
Total governmental activities	47,093,427	6,550	16,485,309	2,753,425	(27,848,143)	-	(27,848,143)
Business-type activities							
Food service	3,019,202	182,072	2,986,413	-	-	149,283	149,283
Community service operations	66,321	33,837	13,689	-	-	(18,795)	(18,795)
Total business-type activities	3,085,523	215,909	3,000,102	-	-	130,488	130,488
Total primary government	\$ 50,178,950	\$ 222,459	\$ 19,485,411	\$ 2,753,425	(27,848,143)	130,488	(27,717,655)
General revenues							
Taxes:							
Property					3,962,775	-	3,962,775
Motor vehicle					895,989	-	895,989
Utility					1,525,061	-	1,525,061
Unmined minerals					70,002	-	70,002
Earnings on investments					118,536	6,558	125,094
State grants					20,057,643	-	20,057,643
Other local amounts					455,277	-	455,277
Transfers					41,215	(41,215)	-
Gain/(loss) on disposal of assets					(36,556)	(3,178)	(39,734)
Total general revenues					27,089,942	(37,835)	27,052,107
Change in net position					(758,201)	92,653	(665,548)
Net position as of June 30, 2012					27,235,756	1,809,658	29,045,414
Prior period adjustment (See notes)					(680,025)	-	(680,025)
Net position as of June 30, 2013	\$ 25,797,530	\$ 1,902,311	\$ 27,699,841				

The accompanying notes are an integral part of these financial statements

KNOX COUNTY SCHOOL DISTRICT

**BALANCE SHEET -
GOVERNMENTAL FUNDS
Year ended June 30, 2013**

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,595,863	\$ -	\$ 2,876,998	\$ 157,297	\$ 8,630,158
Investments	1,018,213	-	172,387	38,764	1,229,364
Prepaid expenses	7,000	-	-	-	7,000
Accounts receivable:					
Taxes	236,475	-	-	-	236,475
Other	27,765	-	-	-	27,765
Intergovernmental - State	294	43,048	-	-	43,342
Intergovernmental - Federal	9,050	1,377,016	-	-	1,386,066
Bond funds receivable	-	-	3,159,374	-	3,159,374
Total assets	\$ 6,894,660	\$ 1,420,064	\$ 6,208,759	\$ 196,061	\$ 14,719,544
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 1,098,477	\$ -	\$ -	\$ 1,098,477
Accounts payable	162,396	60,119	2,325,119	-	2,547,634
Accrued salaries & benefit payable	295,356	-	-	-	295,356
Payroll taxes payable	811,724	-	-	-	811,724
Current portion of accumulated sick leave	120,687	-	-	-	120,687
Deferred revenue	-	261,468	-	-	261,468
Total liabilities	1,390,163	1,420,064	2,325,119	-	5,135,346
Fund balances					
Non-spendable	7,000	-	-	38,764	45,764
Restricted	170,928	-	3,883,640	157,297	4,211,865
Committed	186,442	-	-	-	186,442
Assigned	1,126,881	-	-	-	1,126,881
Unassigned	4,013,246	-	-	-	4,013,246
Total fund balances	5,504,497	-	3,883,640	196,061	9,584,198
Total liabilities and fund balances	\$ 6,894,660	\$ 1,420,064	\$ 6,208,759	\$ 196,061	\$ 14,719,544

KNOX COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

Year ended June 30, 2013

Total fund balances - governmental funds	\$ 9,584,198
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	61,907,542
Capitalized the bond issue costs for the sale/refunding of bonds less amortization over the life of the bonds.	1,008,189
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(45,865,000)
Capital lease payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(22,034)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(345,534)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(469,830)</u>
Total net position - governmental activities	<u>\$ 25,797,530</u>

KNOX COUNTY SCHOOL DISTRICT

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

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 3,446,902	\$ -	\$ -	\$ 515,873	\$ 3,962,775
Motor vehicle	895,989	-	-	-	895,989
Utility	1,525,061	-	-	-	1,525,061
Unmined minerals tax	70,002	-	-	-	70,002
Earnings on investments	117,504	167	735	130	118,536
Other local	310,580	114,689	-	-	425,269
Intergovernmental - State	27,602,612	2,082,540	-	2,753,425	32,438,577
Intergovernmental - Federal	131,741	6,726,059	-	-	6,857,800
Total revenues	34,100,391	8,923,455	735	3,269,428	46,294,009
Expenditures					
Current:					
Instruction	20,231,611	7,690,347	-	-	27,921,958
Student	2,200,922	75,954	-	-	2,276,876
Instructional support	1,044,259	580,928	-	-	1,625,187
District administration	822,384	2,219	-	-	824,603
School administration	2,286,282	-	-	-	2,286,282
Business operations	825,181	52,240	-	-	877,421
Plant operations and maintenance	4,399,955	18,673	-	-	4,418,628
Student transportation	3,420,059	83,749	-	-	3,503,808
Other instructional	45,724	-	-	-	45,724
Community services	7,401	484,315	-	213	491,929
Building acquisition and construction	-	-	9,299,862	-	9,299,862
Debt service	-	-	-	3,167,630	3,167,630
Total expenditures	35,283,778	8,988,425	9,299,862	3,167,843	56,739,908
Excess (deficit) of revenues over (under) expenditures	(1,183,387)	(64,970)	(9,299,127)	101,585	(10,445,899)
Other financing sources (uses)					
Bond principal proceeds	-	-	12,775,000	-	12,775,000
Transfers in	169,438	72,740	-	1,699,185	1,941,363
Transfers out	(91,526)	(7,770)	-	(1,800,853)	(1,900,149)
Total other financing sources (uses)	77,912	64,970	12,775,000	(101,668)	12,816,214
Net change in fund balance	(1,105,475)	-	3,475,873	(83)	2,370,315
Fund balance as of June 30, 2012	6,609,972	-	407,767	196,144	7,213,883
Fund balance as of June 30, 2013	\$ 5,504,497	\$ -	\$ 3,883,640	\$ 196,061	\$ 9,584,198

KNOX COUNTY SCHOOL DISTRICT

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

Net change in total fund balances - governmental funds	2,370,315
Amounts reported for governmental activities in the statement of revenues, expenses, and changes in net position are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of revenues, expenses, and changes in net position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	7,927,989
Bond issuance costs are reported as expenditures in the fund financial statements because they use current resources, but they are presented as assets in the statement of revenues, expenses, and changes in net position and amortized over the life of the bond	(112,642)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	(10,514,722)
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of revenues, expenses, and changes in net position.	(192,732)
Accumulated sick leave is recognized by the amount earned in the statement of revenues, expenses, and changes in net position, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	(199,852)
Gains and losses on the disposal of assets are not recorded in the governmental funds but are recorded in the statement of revenues, expenses, and changes in net position.	<u>(36,557)</u>
Change in net position - governmental activities	<u>(758,201)</u>

KNOX COUNTY SCHOOL DISTRICT

**STATEMENT OF NET POSITION -
PROPRIETARY FUNDS
Year ended June 30, 2013**

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 462,534	\$ -	\$ 462,534
Accounts receivable	228,212	1,846	230,058
Inventory	50,771	-	50,771
Total current assets	741,517	1,846	743,363
Noncurrent assets			
Capital assets	3,005,738	(4,452)	3,001,286
Less accumulated depreciation	(1,844,731)	4,452	(1,840,279)
Total noncurrent assets	1,161,007	-	1,161,007
Total assets	1,902,524	1,846	1,904,370
LIABILITIES			
Checks written in excess of account balance	-	1,846	1,846
Accounts payable	213	-	213
Total liabilities	213	1,846	2,059
NET POSITION			
Net investment in capital assets	1,161,007	-	1,161,007
Restricted for:			
Other	741,304	-	741,304
Unrestricted	-	-	-
Total net position	\$ 1,902,311	\$ -	\$ 1,902,311

KNOX COUNTY SCHOOL DISTRICT

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

	Food Service Fund	Other Enterprise Funds	Total
Operating revenues			
Lunchroom sales	\$ 182,072	\$ -	\$ 182,072
Tuition and fees	-	33,837	33,837
Total operating revenues	<u>182,072</u>	<u>33,837</u>	<u>215,909</u>
Operating expenses			
Salaries and wages	737,239	40,159	777,398
Employee benefits	456,115	24,546	480,661
Materials and supplies	1,715,371	1,616	1,716,987
Depreciation	110,477	-	110,477
Total operating expenses	<u>3,019,202</u>	<u>66,321</u>	<u>3,085,523</u>
Operating loss	<u>(2,837,130)</u>	<u>(32,484)</u>	<u>(2,869,614)</u>
Nonoperating revenues			
Federal grants	2,566,678	-	2,566,678
State grants	278,004	13,689	291,693
Donated commodities	141,731	-	141,731
Interest income	6,548	10	6,558
Loss on disposal of assets	(3,178)	-	(3,178)
Total nonoperating revenues/(expenses)	<u>2,989,783</u>	<u>13,699</u>	<u>3,003,482</u>
Income before contributions			
Transfers and special items	152,653	(18,785)	133,868
Transfers in (out)	<u>(60,000)</u>	<u>18,785</u>	<u>(41,215)</u>
Change in net position	92,653	-	92,653
Net position as of June 30, 2012	<u>1,809,658</u>	<u>-</u>	<u>1,809,658</u>
Net position as of June 30, 2013	<u>\$ 1,902,311</u>	<u>\$ -</u>	<u>\$ 1,902,311</u>

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
 PROPRIETARY FUNDS
 Year ended June 30, 2013

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 182,072	\$ -	\$ 182,072
Other activities	-	33,837	33,837
Cash paid to/for:			
Employees	(1,193,354)	(64,705)	(1,258,059)
Supplies	(1,709,263)	(1,616)	(1,710,879)
Net cash used in operating activities	<u>(2,720,545)</u>	<u>(32,484)</u>	<u>(2,753,029)</u>
Cash flows from non-capital financing activities			
Grants received	2,771,533	13,689	2,785,222
Transfer From (To) General Fund	(60,000)	18,785	(41,215)
Net cash used in non-capital financing activities	<u>2,711,533</u>	<u>32,474</u>	<u>2,744,007</u>
Cash flows from investing activities			
Purchase of fixed assets	(78,704)	-	(78,704)
Interest received on investments	6,548	10	6,558
Net cash used in capital and related activities	<u>(72,156)</u>	<u>10</u>	<u>(72,146)</u>
Net increase in cash and cash equivalents	(81,168)	-	(81,168)
Cash and cash equivalents as of June 30, 2012	543,702	-	543,702
Cash and cash equivalents as of June 30, 2013	<u>\$ 462,534</u>	<u>\$ -</u>	<u>\$ 462,534</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	(2,837,130)	(32,484)	(2,869,614)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in Accounts receivable	-	(1,118)	(1,118)
(Increase) Decrease in Inventory	6,540	-	6,540
Increase (Decrease) in Accounts payable	(432)	-	(432)
Increase (Decrease) in Checks written in excess of account balance	-	1,118	1,118
Depreciation	110,477	-	110,477
Net cash used in operating activities	<u>\$ (2,720,545)</u>	<u>\$ (32,484)</u>	<u>\$ (2,753,029)</u>
Schedule of non-cash transactions:			
Loss on disposal of assets	-	-	-
Depreciation	110,477	-	110,477
Donated commodities	141,731	-	141,731
Total non-cash transactions	<u>\$ 252,208</u>	<u>\$ -</u>	<u>\$ 252,208</u>

KNOX COUNTY SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION -
FIDUCIARY FUNDS**

Year ended June 30, 2013

	Agency Funds	Total Fiduciary Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 332,644	\$ 332,644
Accounts receivable	1,009	1,009
	<u> </u>	<u> </u>
Total assets	<u>333,653</u>	<u>333,653</u>
LIABILITIES		
Accounts payable	453	453
Due to student groups	333,200	333,200
	<u> </u>	<u> </u>
Total liabilities	<u>333,653</u>	<u>333,653</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>

1. REPORTING ENTITY

The Knox County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Knox County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Knox County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Knox County School District Finance Corporation – In a prior year, the Knox County Board of Education resolved to authorize the establishment of the Knox County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The following is a summary of the basis of presentation:

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

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

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

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

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

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

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

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

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

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

I. Government Fund Types - continued

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

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

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

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

II. Proprietary Fund Types (Enterprise Funds)

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

The Child Care Fund accounts for the funds raised at schools providing after school care for children.

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

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

III. Fiduciary Fund Type (Agency Funds)

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

Basis of Accounting

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

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

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

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

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

The fair value of donated commodities used during the year is reported in the statement of activities as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.465 per \$100 valuation for real property, \$.465 per \$100 valuation for business personal property and \$.502 per \$100 valuation for motor vehicles.

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

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

Prepaid Assets

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

Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Receivables

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

Inventories

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

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund balances are separated into five categories, as required by GASB 54, as follows:

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

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

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

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

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds. The Board has also established a "Rainy Day Fund." The amount committed by the board for the "Rainy Day Fund" is equal to five percent (5%) of total expenditures per the Annual Financial Report reduced by the grand total of on-behalf payments, not to exceed \$2,000,000.

Encumbrances

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

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

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

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

Interfund Activity

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

Estimates

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

3. CUSTODIAL CREDIT RISK - DEPOSITS

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

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2013

3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED

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

	<u>Bank Balance</u>	<u>Book Balance</u>
Forcht Bank	\$ 10,112,819	\$ 9,528,849
Commercial Bank	\$ 16,755	\$ 16,755
Bank of Corbin	<u>8,773</u>	<u>8,773</u>
	<u>\$ 10,138,347</u>	<u>\$ 9,554,377</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 8,761,045
Proprietary funds	460,688
Agency funds	<u>332,644</u>
	<u>\$ 9,554,377</u>

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

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

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2013, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2013

5. CAPITAL ASSETS

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

	June 30, 2012 Balance	Additions	Retirements	June 30, 2013 Balance
Governmental Activities				
Land & land improvements	\$ 5,648,876	\$ -	\$ -	\$ 5,648,876
Buildings	60,436,671	-	-	60,436,671
Technology equipment	2,875,345	827,914	414,804	3,288,455
Vehicles	5,068,928	22,100	-	5,091,028
General equipment	1,630,189	2,600	156,714	1,476,075
Construction work in progress	104,892	9,299,862	-	9,404,754
Total historical cost	<u>75,764,901</u>	<u>10,152,476</u>	<u>571,518</u>	<u>85,345,859</u>
Less accumulated depreciation	21,748,791	2,224,487	534,961	23,438,317
Governmental capital assets, net	<u>\$ 54,016,110</u>	<u>\$ 7,927,989</u>	<u>\$ 36,557</u>	<u>\$ 61,907,542</u>
Business-type Activities				
Buildings	\$ 1,684,374	\$ -	\$ -	\$ 1,684,374
Technology equipment	34,699	1,999	1,695	35,003
General equipment	1,270,691	76,706	61,036	1,286,361
Total historical cost	<u>2,989,764</u>	<u>78,705</u>	<u>62,731</u>	<u>3,005,738</u>
Less accumulated depreciation	1,793,807	110,477	59,553	1,844,731
Business-type capital assets, net	<u>\$ 1,195,957</u>	<u>\$ (31,772)</u>	<u>\$ 3,178</u>	<u>\$ 1,161,007</u>

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

Instruction	\$ 1,920,083
Student	-
Instruction staff	9,395
District administrative	14,093
School administrative	1,584
Business	608
Plant operation and maintenance	48,953
Student transportation	227,054
Community Services	2,717
	<u>\$ 2,224,487</u>

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2013

6. CAPITAL LEASE PAYABLE

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

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2012	Debt Issued	Debt Paid	Balance June 30, 2013	Due Within One Year
5/17/2012	5/17/2014	1.90%	\$ 283,646	\$ 187,312		\$ 187,312	\$ -	\$ -
5/17/2012	5/17/2014	1.90%	<u>33,051</u>	<u>-</u>	<u>33,051</u>	<u>11,017</u>	<u>22,034</u>	<u>11,017</u>
			<u>\$ 316,697</u>	<u>\$ 187,312</u>	<u>\$ 33,051</u>	<u>\$ 198,329</u>	<u>\$ 22,034</u>	<u>\$ 11,017</u>

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

Year	Principal	Interest	Total
2013-14	\$ 11,017	\$ 1,075	\$ 12,092
2014-15	<u>11,017</u>	<u>1,075</u>	<u>12,092</u>
Totals	<u>\$ 22,034</u>	<u>\$ 2,150</u>	<u>\$ 24,184</u>
	Less: amounts representing interest		<u>(2,150)</u>
	Net Capital lease liability		<u>\$ 22,034</u>

7. LONG-TERM OBLIGATIONS

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

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

Issue Date	Proceeds	Rates
2005R	\$ 6,365,000	3% - 3.75%
2012R	16,340,000	2.00% - 2.75%
2007	11,040,000	3.50% - 4.25%
2002A	225,000	1.4% - 3.50%
2000	1,000,000	4.75% - 2.25%
2003	17,610,000	4.375%
2009R	1,510,000	2.00% - 3.70%
2008	4,460,000	3.70%
2012	9,580,000	1.00% - 3.00%
2013	3,195,000	0.60% - 3.40%

7. LONG-TERM OBLIGATIONS-CONTINUED

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

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008 the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

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

See table on next page

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2013

Year	Knox County School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2013-14	\$ 1,157,066	\$ 916,127	\$ 1,117,934	\$ 557,800	\$ 2,275,000	\$ 1,473,927
2014-15	1,321,988	770,621	1,143,012	525,488	2,465,000	1,296,109
2015-16	1,275,316	732,363	1,174,684	491,738	2,450,000	1,224,101
2016-17	1,325,235	694,046	1,204,765	456,320	2,530,000	1,150,366
2017-18	1,373,461	654,612	1,186,539	420,371	2,560,000	1,074,983
2018-19	1,426,239	621,382	1,128,761	386,382	2,555,000	1,007,764
2019-20	1,485,680	582,302	1,164,320	353,022	2,650,000	935,324
2020-21	1,533,497	548,622	1,196,503	317,941	2,730,000	866,563
2021-22	1,589,365	511,994	1,235,635	280,544	2,825,000	792,538
2022-23	1,647,425	471,045	1,272,575	240,733	2,920,000	711,778
2023-24	1,709,182	424,986	1,215,818	199,696	2,925,000	624,682
2024-25	1,768,454	373,904	851,546	162,453	2,620,000	536,357
2025-26	1,844,810	317,454	885,190	129,009	2,730,000	446,463
2026-27	1,779,973	263,426	920,027	94,058	2,700,000	357,484
2027-28	1,864,891	198,581	830,109	60,386	2,695,000	258,967
2028-29	950,000	143,550	180,000	36,728	1,130,000	180,278
2029-30	1,000,000	114,300	190,000	30,608	1,190,000	144,908
2030-31	1,050,000	83,550	195,000	23,293	1,245,000	106,843
2031-32	1,105,000	51,225	200,000	15,785	1,305,000	67,010
2032-33	1,155,000	17,325	210,000	8,085	1,365,000	25,410
	<u>\$ 28,362,582</u>	<u>\$ 8,491,415</u>	<u>\$ 17,502,418</u>	<u>\$ 4,790,440</u>	<u>\$ 45,865,000</u>	<u>\$ 13,281,855</u>

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

School Building Revenue Bonds	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
2005R	\$ 4,200,000	\$ -	\$ 645,000	\$ 3,555,000
2012R	16,155,000	-	625,000	15,530,000
2007	9,620,000	-	390,000	9,230,000
2002A	25,000	-	25,000	-
2000	270,000	-	85,000	185,000
2009R	1,000,000	-	175,000	825,000
2008	3,915,000	-	150,000	3,765,000
2012	-	9,580,000	-	9,580,000
2013	-	3,195,000	-	3,195,000
	<u>\$ 35,185,000</u>	<u>\$ 12,775,000</u>	<u>\$ 2,095,000</u>	<u>\$ 45,865,000</u>

8. RETIREMENT PLANS

Kentucky Teachers' Retirement System

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. Certified employees are covered under KTRS. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by Kentucky Department of Education (KDE).

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

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

Medical Insurance Plan

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

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

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

County Employees Retirement System

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

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

8. RETIREMENT PLANS-CONTINUED

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

The District's total payroll for the year was \$27,315,854. The payroll for employees covered under KTRS was \$21,021,853 and for CERS was \$6,471,876.

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2013, 2012 and 2011 was \$2,950,407, \$3,448,154, and \$3,619,845, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2013, 2012, and 2011 were \$1,638,822, \$1,569,856, and \$1,374,447, respectively. The District met their contribution requirements.

9. LEASES

As of June 30, 2013 the District was not obligated to any non cancelable operating leases.

10. CONTINGENCIES

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

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

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

- An assessment under a fair methodology to be approved by the Kentucky Department of Insurance of current and past participating members to fund the deficit.
- As applicable, a financing option that will give participating districts the choice of paying their portion, if any, of the assessment over a twenty-year period.
- The KSBIT self-insurance Pools will no longer accept new or renewal business after January 2013.

10. CONTINGENCIES-CONTINUED

- While these are still viable considerations, on November 7, 2013 the Kentucky Department of Insurance (DOI) filed petitions in Franklin Circuit Court asking that two of the Kentucky School Boards Insurance Trust's self-insured funds be placed in rehabilitation, which means DOI will directly manage the funds.

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

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

11. LITIGATION

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

12. IMPLEMENTATION OF GASB STATEMENT NO. 63

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

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

13. RISK MANAGEMENT

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

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

14. DEFICIT FUND BALANCES

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

15. COBRA

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

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2013

16. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	FSPK Fund	Debt Service	Debt Service	\$ 1,411,479
Operating	SEEK Capital Outlay	Debt Service	Debt Service	287,706
Operating	SEEK Capital Outlay	General	Operating	101,669
Operating	Food Service	General	Indirect Costs	60,000
Operating	General	Special Revenue	Operating	72,740
Operating	Special Revenue	General	Operating	7,770
Operating	SEEK Capital Outlay	Day Care Fund	Operating	18,785

17. INTERFUND RECEIVABLES AND PAYABLES

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

18. ON-BEHALF PAYMENTS

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

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 1,681,275
Health and Life insurance	5,551,462
Other	262,820
Technology	115,983
Debt Service	1,468,445
	<u>\$ 9,079,985</u>

19. JOINT VENTURE

The Knox County Board of Education has a joint venture with the Appalachian Children's Home to provide intangible resources (educators) while the Appalachian Children's Home provides the tangible building and property for the students. This joint venture creates a "school" called the Knox Appalachian School."

The Knox Appalachian School was founded in 2004 as a joint venture with the Appalachian Children's Home and the Knox County Board of Education. The Knox Appalachian School is a public school serving the needs of the children committed to the Appalachian Children's Home.

20. PRIOR PERIOD ADJUSTMENT

The beginning net position of the District had to be decreased due to an overstatement in net bond issue costs.

Net Position as of June 30, 2012	\$ 27,235,756
Prior period adjustment	<u>(680,025)</u>
Restated net position as of June 30, 2012	<u>\$ 26,555,731</u>

21. FUND BALANCE DESIGNATIONS

The following funds had non-spendable fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 7,000	Prepaid expenses
Permanent	38,764	Trust Agreement

The following funds had restricted fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 170,928	Sick leave
Construction	3,883,640	Future Construction
Capital Outlay	154,024	SFCC Requirement
Permanent	3,273	Trust Agreement

The following funds had committed fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 186,442	Future Construction
General	2,000,000	Rainy Day Funds

22. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report, which is the date the audit report can be released. Management discovered a previously undisclosed bank account that required posting in the agency funds.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND**

Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 3,196,823	\$ 3,196,823	\$ 3,446,902	\$ 250,079
Motor vehicle	682,818	682,818	895,989	213,171
Utility	1,138,188	1,138,188	1,525,061	386,873
Unmined minerals tax	15,622	15,622	70,002	54,380
Earnings on investments	75,000	75,000	117,504	42,504
Other local	170,023	170,023	310,580	140,557
Intergovernmental - State	27,552,483	27,552,483	27,602,612	50,129
Intergovernmental - Federal	68,636	68,636	131,741	63,105
Total revenues	32,899,593	32,899,593	34,100,391	1,200,798 *
Expenditures				
Current:				
Instruction	21,606,746	21,606,746	20,231,611	1,375,135
Student	2,267,428	2,267,428	2,200,922	66,506
Instructional staff	1,090,326	1,090,326	1,044,259	46,067
District administration	1,000,487	1,000,487	822,384	178,103
School administration	2,302,804	2,302,804	2,286,282	16,522
Business operations	956,678	956,678	825,181	131,497
Plant operations and maintenance	4,858,562	4,858,562	4,399,955	458,607
Student transportation	3,593,548	3,593,548	3,420,059	173,489
Other instructional	39,952	39,952	53,125	(13,173)
Contingency	1,512,634	1,512,634	-	1,512,634
Total expenditures	39,229,165	39,229,165	35,283,778	3,945,387 *
Excess (deficit) of revenues over (under) expenditures	(6,329,572)	(6,329,572)	(1,183,387)	5,146,185
Other financing sources (uses)				
Transfers in	167,272	167,272	169,438	2,166
Transfers out	(69,443)	(69,443)	(91,526)	(22,083)
Total other financing sources (uses)	97,829	97,829	77,912	(19,917)
Net change in fund balance	(6,231,743)	(6,231,743)	(1,105,475)	5,126,268
Fund balance as of June 30, 2012	6,231,743	6,231,743	6,609,972	378,229
Fund balance as of June 30, 2013	\$ -	\$ -	\$ 5,504,497	\$ 5,504,497

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

KNOX COUNTY SCHOOL DISTRICT

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

Year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ 9,067	\$ 9,067	\$ 114,856	\$ 105,789
Intergovernmental - State	2,076,309	2,076,309	2,082,540	6,231
Intergovernmental - Federal	6,024,548	6,024,548	6,726,059	701,511
Total revenues	8,109,924	8,109,924	8,923,455	813,531
Expenditures				
Current:				
Instruction	6,768,733	6,768,733	7,690,347	(921,614)
Student support services	39,493	39,493	75,954	(36,461)
Instructional support	714,856	714,856	580,928	133,928
District administration	-	-	2,219	(2,219)
Business support services	50,000	50,000	52,240	(2,240)
Plant operations & maintenance	15,500	15,500	18,674	(3,174)
Student transportation	87,090	87,090	83,749	3,341
Community service	489,125	489,125	484,315	4,810
Total expenditures	8,164,797	8,164,797	8,988,425	(823,628)
Deficit of revenues under expenditures	(54,873)	(54,873)	(64,970)	10,097
Other financing sources				
Operating transfers out	(7,345)	(7,345)	(7,770)	(425)
Operating transfers in	62,218	62,218	72,740	10,522
Total other financing sources	54,873	54,873	64,970	10,097
Net change in fund balance	-	-	-	-
Fund balance as of June 30, 2012	-	-	-	-
Fund balance as of June 30, 2013	\$ -	\$ -	\$ -	\$ -

KNOX COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND**

Year ended June 30, 2013

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

Non-budgeted revenues

Intergovernmental state revenue - on-behalf payments	<u>\$ 7,346,543</u>
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Non- budgeted expenditures

On-behalf expenditures

Instruction	\$ 4,707,662
Student	484,014
Instructional staff support	228,704
District administration	105,429
School administration	533,680
Business support services	245,417
Plant operations and maintenance	471,217
Student transportation	564,913
Food service	4,739
Community services	<u>767</u>

Total non-budgeted on-behalf expenditures	<u><u>\$ 7,346,543</u></u>
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The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget. The working budget was amended during the year.

KNOX COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2013

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Permanent Fund	Total Non-major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 154,024	\$ -	\$ -	\$ 3,273	\$ 157,297
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,764</u>	<u>38,764</u>
Total assets	<u>\$ 154,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,037</u>	<u>\$ 196,061</u>
FUND BALANCES					
Fund Balances:					
Non-spendable	\$ -		\$ -	\$ 38,764	\$ 38,764
Restricted	<u>154,024</u>	<u>-</u>	<u>-</u>	<u>3,273</u>	<u>157,297</u>
Total fund balances	<u>\$ 154,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,037</u>	<u>\$ 196,061</u>

KNOX COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2013**

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Permanent Fund	Total Non-major Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 515,873	\$ -	\$ -	\$ 515,873
Earnings on investments	-	-	-	130	130
Intergovernmental - State	389,374	895,606	1,468,445	-	2,753,425
Intergovernmental - Federal	-	-	-	-	-
Total revenues	<u>389,374</u>	<u>1,411,479</u>	<u>1,468,445</u>	<u>130</u>	<u>3,269,428</u>
Expenditures					
Community service	-	-	-	213	213
Debt service	-	-	3,167,630	-	3,167,630
Total expenditures	<u>-</u>	<u>-</u>	<u>3,167,630</u>	<u>213</u>	<u>3,167,843</u>
Other financing sources (uses)					
Bond principal proceeds	-	-	-	-	-
Transfers in	-	-	1,699,185	-	1,699,185
Transfers out	(389,374)	(1,411,479)	-	-	(1,800,853)
Total other financing sources (uses)	<u>(389,374)</u>	<u>(1,411,479)</u>	<u>1,699,185</u>	<u>-</u>	<u>(101,668)</u>
Net change in fund balance	-	-	-	(83)	(83)
Fund balance as of June 30, 2012	<u>154,024</u>	<u>-</u>	<u>-</u>	<u>42,120</u>	<u>196,144</u>
Fund balance as of June 30, 2013	<u>\$ 154,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,037</u>	<u>\$ 196,061</u>

**KNOX COUNTY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
 Year Ended June 30, 2013**

School/ Activity Fund	Cash and Equivalents		Receipts	Disbursements	Cash and Cash Equivalents		Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
	June 30, 2012	June 30, 2013			June 30, 2013	June 30, 2013			
Knox Middle School	\$ 22,449	\$ 128,782	\$ 132,145	\$ 19,086	\$ -	\$ 87	\$ 18,999		
Central Elementary	3,644	45,254	42,605	6,293	-	-	6,293		
Dewitt Elementary	5,673	15,962	18,949	2,686	-	-	2,686		
Flat Lick Elementary	11,980	24,592	27,435	9,137	-	-	9,137		
Girdler Elementary	24,697	76,577	74,855	26,419	-	-	26,419		
G.R. Hampton Elementary	6,106	16,957	15,850	7,213	-	-	7,213		
Jesse D. Lay Elementary	23,127	33,215	31,118	25,224	-	-	25,224		
Lynn Camp Elementary	19,149	41,161	39,265	21,045	-	-	21,045		
Learning Academy	7,393	1,950	2,151	7,192	-	-	7,192		
Lynn Camp Gaming	7	154	154	7	-	-	7		
Totals	\$ 124,225	\$ 384,604	\$ 384,527	\$ 124,302	\$ -	\$ 87	\$ 124,215		

KNOX COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
 KNOX CENTRAL HIGH SCHOOL ACTIVITY FUND
 Year ended June 30, 2013

	Fund Balances		Receipts		Disbursements		Transfers		Cash and Cash Equivalents		Accounts Receivable		Accounts Payable		Fund Balances
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	In	Out	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Academic	\$ 551	\$ -	\$ -	\$ 230	\$ -	\$ -	-	-	\$ 321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 321
Athletics	12,183	3,032	11,152	2,256	6,319	6,319	-	-	200	-	-	-	-	-	6,319
Art	200	-	-	432	23	23	-	-	6,459	-	-	-	-	-	200
Band	-	250	659	-	-	-	-	-	-	-	-	-	-	-	23
Baseball Field	58	10,931	4,530	-	6,459	6,459	-	-	298	-	-	-	-	-	6,459
Basketball Boys	10,128	26,417	36,247	-	298	298	-	-	441	-	-	-	-	-	298
Basketball Girls	95	17,537	13,663	-	3,528	3,528	-	-	-	-	-	-	-	-	441
Fresh/Soph Beta Club	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beta	184	1,248	1,311	-	122	122	-	-	406	-	-	-	-	-	122
Choir	1,130	2,543	2,835	-	432	406	-	-	57	-	-	-	-	-	406
Reading Intervention	57	-	-	-	-	-	-	-	2,073	-	-	-	-	-	57
Cross Country	7,488	-	5,415	-	-	-	-	-	191	-	-	-	-	-	2,073
Dance Team	122	3,863	3,794	-	-	-	-	-	11	-	-	-	-	-	191
First Priority	3	500	492	-	-	-	-	-	13,320	-	-	-	-	-	11
Football Camp	6,974	35,785	29,438	-	-	-	-	-	(0)	-	-	-	-	-	13,320
Future Business Leaders	-	7,202	7,202	-	-	-	-	-	70	-	-	-	-	-	(0)
Future Educators America	70	-	-	-	-	-	-	-	1,903	-	-	-	-	-	70
Future Farmers	1,100	8,120	7,317	-	-	-	-	-	1,105	-	-	-	-	-	1,903
Guidance	1,593	613	1,101	-	-	-	-	-	39	-	-	-	-	-	1,105
Golf Boys	32	1,283	1,275	-	-	-	-	-	3	-	-	-	-	-	39
Golf Girls	3	-	-	-	-	-	-	-	7,629	-	-	-	-	-	3
Horticulture	11,489	4,849	8,709	-	-	-	-	-	576	-	-	-	-	-	7,629
JROTC	3,811	3,525	6,760	-	-	-	-	-	8,909	-	-	-	-	-	576
JUNIORS	8,457	6,746	1,825	-	4,469	4,469	-	-	1,592	-	-	-	-	-	8,909
KC Bookstore	5,055	8,413	11,876	-	-	-	-	-	324	-	-	-	-	-	1,592
Library	429	574	680	-	-	-	-	-	2,833	-	-	-	-	-	324
Literary Club	574	-	-	2,259	-	-	-	-	15,486	-	-	-	-	-	2,833
Lockers	13,442	2,044	-	-	-	-	-	-	8,549	-	-	-	-	-	15,486
Miscellaneous	6,988	1,696	135	-	-	-	-	-	113	-	-	-	-	-	8,549
Multimedia	113	-	-	-	-	-	-	-	23,486	-	-	-	-	-	113
Journalism	23,072	4,015	3,601	-	-	-	-	-	(0)	-	-	-	-	-	23,486
Odyssey of the Mind	273	8,164	8,658	220	-	-	-	-	3,200	-	-	-	-	-	(0)
Parking	2,120	1,080	-	-	-	-	-	-	4,764	-	-	-	-	-	3,200
Planners	9,764	-	-	-	-	-	-	5,000	-	-	-	-	-	-	4,764

KNOX COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
 KNOX CENTRAL HIGH SCHOOL ACTIVITY FUND - CONTINUED
 Year ended June 30, 2013

	Fund Balances June 30, 2012	Receipts	Disbursements	Transfers in	Transfers Out	Cash and Cash Equivalents June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Read-Learn-Serve	206	1,080	1,146	-	-	140	-	-	140
Seniors 2013	-	167,361	164,749	2,210	-	4,823	-	-	4,823
Seniors 2012	3,886	-	966	-	2,920	-	-	-	-
Softball	3,597	8,724	9,174	45	-	3,192	-	-	3,192
Sophomore	164	-	164	-	-	-	-	-	-
Spanish	159	-	-	-	-	159	-	-	159
Student Government	28	-	-	-	-	28	-	-	28
Student Vending	5,544	6,174	16,106	7,655	-	3,267	-	-	3,267
Swimming	548	5,432	5,268	-	-	713	-	-	713
Teacher Fund	521	1,671	1,590	-	-	602	-	-	602
Textbook	912	588	500	-	-	1,000	-	-	1,000
The Panther Pride	5,568	26,254	22,427	1,272	-	10,667	-	-	10,667
Track	918	1,532	1,580	-	-	870	-	-	870
Volleyball	3,610	1,328	3,170	-	-	1,768	-	-	1,768
Subtotal	153,219	380,575	395,746	16,349	16,349	138,048	-	-	138,048
*Unrecorded bank account	8,117	4,480	3,824	-	-	8,773	-	-	8,773
Total	\$ 161,336	\$ 385,055	\$ 399,570	\$ 16,349	\$ 16,349	\$ 146,821	\$ -	\$ -	\$ 146,821

*There was a bank account previously not recorded that was using the districts Federal identification number and was for Knox Central Track. This account was booked as a prior period adjustment to reflect the money that belonged to the Knox Central Activity Funds.

KNOX COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
 LYNN CAMP MIDDLE/HIGH SCHOOL ACTIVITY FUND
 Year ended June 30, 2013

	Fund Balances		Receipts		Disbursements		Transfers		Cash and Cash		Accounts		Fund	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	In	Out	Equivalents	Receivable	Payable	June 30, 2013	June 30, 2013	June 30, 2013
Vending	\$ 3	\$ 3	\$ 125	\$ 370	\$ -	\$ -	\$ 242	\$ -	\$ 0	\$ 6	\$ -	\$ -	\$ 6	\$ 6
Faculty Vending	1,471	1,778	1,778	1,854	-	-	-	-	1,395	45	-	-	1,440	1,440
Book Rental	1,598	2,080	2,080	-	-	-	-	-	3,678	-	-	-	3,678	3,678
General Fund	876	4,202	4,202	2,728	-	-	-	-	2,350	-	-	-	2,350	2,350
Drop Out Prevention	868	-	-	-	3	-	-	-	871	-	-	-	871	871
Art Fund	991	470	470	170	-	-	-	-	1,291	-	-	-	1,291	1,291
Locker Fees	1,705	1,845	1,845	-	-	-	298	-	3,252	-	-	-	3,252	3,252
Student Parking Fees	1,194	875	875	169	-	-	-	-	1,900	-	-	-	1,900	1,900
Office Administrator	1,316	620	620	88	-	-	-	-	1,848	-	-	-	1,848	1,848
Change	-	1,450	1,450	1,450	-	-	-	-	-	-	-	-	-	-
General Athletics	-	3,799	3,799	2,459	-	140	-	-	1,200	-	-	-	1,200	1,200
Football Prog-Varsity	-	9,703	9,703	19,163	-	9,460	-	-	0	-	-	-	0	0
Football MS Prog	-	1,125	1,125	570	-	-	-	-	555	-	-	-	555	555
Football JV/FR Prog	-	224	224	150	-	-	-	-	74	-	-	-	74	74
Basketball Boys Var	-	3,378	3,378	3,695	-	317	-	-	-	-	-	-	-	-
Basketball Boys MS	-	1,756	1,756	990	-	-	-	-	766	-	-	-	766	766
Basketball Girls VAR	-	1,783	1,783	1,829	-	46	-	-	(0)	-	-	-	(0)	(0)
Basketball Girls MS	-	925	925	720	-	-	-	-	205	-	-	-	205	205
Volleyball Program	-	891	891	1,400	-	509	-	-	-	-	-	-	-	-
Baseball District	-	1,265	1,265	1,096	-	-	-	-	169	-	-	-	169	169
Golf Program	-	-	-	111	-	111	-	-	-	-	-	-	-	-
Cross Country Program	-	-	-	484	-	484	-	-	-	-	-	-	-	-
Softball Program	-	-	-	1,270	-	1,270	-	-	-	-	-	-	-	-
Baseball VAR Program	-	-	-	2,904	-	2,529	-	-	(0)	-	-	-	(0)	(0)
Track Program	-	-	-	180	-	180	-	-	-	-	-	-	-	-
Pioneer Football Bowl	-	10,837	10,837	4,929	-	4,574	-	-	1,334	-	-	-	1,334	1,334
Volleyball Regional Tourn	-	4,208	4,208	1,469	-	873	-	-	1,866	-	-	-	1,866	1,866
51st Dist Bball Tourn	7,170	1,225	1,225	4,165	-	460	-	-	3,770	-	-	-	3,770	3,770
Football Fundraising	1,013	-	-	-	-	-	-	-	1,013	-	-	-	1,013	1,013
Marketing Education	327	3,056	3,056	2,945	-	-	-	-	438	-	-	-	438	438
FCCLA	1,907	563	563	654	-	50	-	-	1,866	-	-	-	1,866	1,866
Agriculture Education	2,011	10,374	10,374	11,854	-	2,275	-	-	2,805	-	366	-	2,439	2,439
Music	243	901	901	212	-	-	-	-	932	-	-	-	932	932
Drama	-	56	56	-	-	56	-	-	-	-	-	-	-	-
Technology	295	-	-	38	-	-	-	-	257	-	-	-	257	257
High School Cheer Program	1,136	7,626	7,626	6,555	-	-	-	-	2,207	727	-	-	2,934	2,934
Varsity Cheer Program	-	780	780	-	-	637	-	-	143	-	-	-	143	143
Jr. High Cheer Program	459	-	-	-	-	-	-	-	459	-	-	-	459	459

KNOX COUNTY SCHOOL DISTRICT
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
 LYNN CAMP MIDDLE/HIGH SCHOOL ACTIVITY FUND -CONTINUED
 Year ended June 30, 2013

	Fund Balances		Receipts		Disbursements		Transfers		Cash and Cash		Accounts		Fund	
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	in	Out	Equivalents	Receivable	Payable	June 30, 2013	June 30, 2013	Balances
Bowman Memorial Tourn	61	-	6,140	4,810	-	1,100	-	291	-	-	-	-	-	291
Football Concessions	-	-	10,963	4,838	-	6,126	-	-	-	-	-	-	-	-
Football Fundraising	-	-	14,295	8,348	-	5,228	-	-	-	-	-	-	-	719
MS Football Fundraising	-	-	-	475	1,660	-	-	-	1,185	-	-	-	-	1,185
Baseball Fundraising Acct	-	-	10	-	-	10	-	-	-	-	-	-	-	-
HS Baseball Fundraising	-	-	4,937	4,698	-	-	-	-	239	-	-	-	-	239
Basketball Concessions	423	-	4,732	2,216	-	2,700	-	-	239	-	-	-	-	239
Gym Signs Boys/Girls	-	-	4,150	570	-	3,580	-	-	-	-	-	-	-	-
Boys Basketball Fundraising	6,959	-	4,723	10,753	4,910	-	-	-	5,838	-	-	-	-	5,838
Basketball Auction	-	-	2,490	50	-	2,440	-	-	-	-	-	-	-	-
MS Boys Basketball	546	-	-	200	-	-	-	-	346	-	-	-	-	346
MS Girls Basketball	1,820	-	490	1,293	-	-	-	-	1,018	230	-	-	-	1,248
Girls basketball	4,082	-	383	7,363	4,910	-	-	-	2,012	-	-	-	-	2,012
Girls Volleyball	1,003	-	3,943	3,518	-	-	-	-	1,428	-	-	-	-	1,428
MS Softball Fundraising	-	-	13	-	-	-	-	-	13	-	-	-	-	13
Softball Fundraising	621	-	1,478	894	-	-	-	-	1,205	-	-	-	-	1,205
Softball Concessions	29	-	-	-	-	-	-	-	29	-	-	-	-	29
Girls Tennis Booster	393	-	4,314	3,656	-	-	-	-	1,052	-	-	-	-	1,052
Boys Tennis Booster	99	-	-	-	-	-	-	-	99	-	-	-	-	99
Dance Team (LCHS)	459	-	631	758	-	-	-	-	332	-	-	-	-	332
PEP Club	-	-	36	-	-	-	-	-	36	-	-	-	-	36
Social Studies Program	-	-	250	-	-	-	-	-	250	-	-	-	-	250
Math Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Academic Team M.S.	155	-	-	211	56	-	-	-	(0)	-	-	-	-	(0)
Spanish Honor Society	-	-	236	201	-	-	-	-	35	-	-	-	-	35
Math Honor Society	-	-	475	475	-	-	-	-	-	-	-	-	-	-
National Beta Club H	-	-	2,123	1,664	-	-	-	-	459	-	-	-	-	459
KUNA	-	-	2,455	2,208	56	-	-	-	303	-	-	-	-	303
Yearbook	2,098	-	3,691	3,732	-	-	-	-	2,057	-	-	-	-	2,057
Senior Class T Shirts	2	-	-	-	-	-	-	-	2	-	-	-	-	2
Senior Trip Fund	647	-	47,885	46,772	-	129	-	-	1,631	-	-	-	-	1,631
Jr/Sr Prom Fund	2,591	-	2,921	4,529	-	-	-	-	983	-	-	-	-	983
Library fund	70	-	-	-	-	-	-	-	70	-	-	-	-	70
Kings Island Senior	-	-	2,060	2,189	129	-	-	-	(0)	-	-	-	-	(0)
First Priority High School	-	-	304	280	-	-	-	-	24	-	-	-	-	24
First Priority Middle School	341	-	418	-	-	-	-	-	759	-	-	-	-	759
Science Project	1,095	-	-	108	-	-	-	-	987	-	-	-	-	987
First Robotics	-	-	500	-	184	-	-	-	684	-	-	-	-	684
TSA (Tech Student)	184	-	-	-	-	184	-	-	-	-	-	-	-	-
Middle School Prom	-	-	918	75	-	843	-	-	-	-	-	-	-	-
Middle School Rewards	2,120	-	4,521	6,383	-	-	-	-	258	-	-	-	-	258
Alumni Association	250	-	-	-	-	-	-	-	250	-	-	-	-	250
KTP/College Readiness	3	-	-	-	-	3	-	-	-	-	-	-	-	-
Teacher Retirement	35	-	10	-	-	-	-	-	45	-	-	-	-	45
Total accounts	\$ 50,669	\$ 210,792	\$ 199,939	\$ 29,380	\$ 61,521	\$ 1,009	\$ 366	\$ 62,164	\$ 62,164					

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553		
Fiscal Year 13		7760005 13	\$ 503,840
Fiscal Year 12		7760005 12	140,650
National School Lunch Program	10.555		
Fiscal Year 13		7750002 13	1,411,733
Fiscal Year 12		7750002 12	<u>398,250</u>
<i>Child Nutrition Cluster Total</i>			<u>2,454,473</u>
Fresh Fruits & Vegetables	10.582		
Fiscal Year 13		7720013 13	86,624
Fiscal Year 12		7720012 12	<u>25,582</u>
			112,205
Passed Through State Department of Agriculture:			
Commodity Supplemental Food Program	10.565		
Fiscal Year 13		510.4950	<u>141,731</u>
Total US Department of Agriculture			<u>2,708,409</u>
US Department of Education			
Passed Through State Department of Education			
Adult Education - Basic Grants to States	84.002		
Fiscal Year 13		1200001254	<u>164,694</u>
			164,694
<i>Title I Cluster</i>			
Title I Grants to Local Education Agencies	84.010		
Fiscal Year 13		3100002 10	2,702,968
Fiscal Year 13M		3100002 10	30,822
Fiscal Year 13E		3100002 10	84,293
Fiscal Year 12		3100002 12	531,775
Fiscal Year 12D		3100002 12	102,036
Fiscal Year 11		3100002 12	17,669
Fiscal Year 12T		3100002 12	14,721
Title I Grants to Local Education Agencies-Part D	84.010		
Fiscal Year 13		3100102 13	40,656
Fiscal Year 12		3100102 12	22,134
Fiscal Year 11		3100102 11	1,646
Title I Grants to Local Education Agencies-School Improvement	84.010		
Fiscal Year 13		3100202 13	4,958
Fiscal Year 12		3100202 12	<u>67,691</u>
<i>Title I Cluster Total</i>			<u>3,621,369</u>
School Improvement Grants, Recovery Act	84.388A		
Fiscal Year 10A-ARRA		4100002 10	43,077
Fiscal Year 10B-ARRA		4100102 10	100,294
Fiscal Year 10C-ARRA		4100102 10	<u>499,212</u>
			642,583
<i>Special Education Cluster</i>			
Special Education Grants to States	84.027		
Fiscal Year 13		3810002 13	1,022,497
Fiscal Year 12		3810002 12	18,489
Special Education -Preschool Grants	84.173		
Fiscal Year 13		3800002 13	<u>73,448</u>
<i>Special Education Cluster Total</i>			1,114,434
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 13		4620932 13	<u>63,588</u>
			63,588
Rural Education	84.358B		
Fiscal Year 13		3140002 13	83,373
Fiscal Year 11		3140002 11	<u>3,879</u>
			87,252

KNOX COUNTY SCHOOL DISTRICT

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

Improving Teacher Quality State Grants	84.367A		
Fiscal Year 13		3230002 13	452,645
Fiscal Year 12		3230002 12	<u>43,963</u>
			496,608
Education Jobs Fund	84.410		
Fiscal Year 12		EJOB00 12	<u>8,688</u>
			8,688
Race to the Top	84.413A		
Fiscal Year 12		4521	<u>38,576</u>
			38,576
Twenty-First Century Community Learning Centers	84.287		
Fiscal Year 12		3400002 12	4,623
Fiscal Year 09		3400002 09	<u>335</u>
			4,958
Passed Through Berea College			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A		
Fiscal Year 12H		3792H	312
Fiscal Year 12O		3792O	7,680
Fiscal Year 12R		3972R	19,529
Fiscal Year 13		3793	136,600
Fiscal Year 13A		3793A	112,194
Fiscal Year 13C		3793C	11,897
Fiscal Year 13I		3793I	24,322
Fiscal Year 13L		3793L	31,024
Fiscal Year 13P		3793P	50,440
Fiscal Year 13R		3793R	<u>8,440</u>
			402,437
Passed Through Success For All Foundation			
Scale Up & Evaluation of Success for all Struggling Elem Schools	84.396A		
Fiscal Year 13		4282	68,558
Fiscal Year 12		4281	<u>3,267</u>
			71,824
Passed Through Morehead State University			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011		
Fiscal Year 13		6882	<u>8,535</u>
Total US Department of Education			<u>6,725,546</u>
U.S. Department of Commerce			
Passed Through The Center for Rural Development			
Congressionally Identified Awards and Projects	11.469		
Fiscal Year 13C		2722C	<u>513</u>
Total US Department of Commerce			513
US Department of Defense			
Passed Through State Department of Education:			
Junior Reserve Officers' Training Corps	12.000		
Fiscal Year 13		5043	<u>72,252</u>
Total US Department of Defense			<u>72,252</u>
Total Expenditure of Federal Awards			<u>\$ 9,506,720</u>

KNOX COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

1. BASIS OF PRESENTATION

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

2. IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2013 is \$141,731.

3. CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

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

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Knox County School District's basic financial statements, and have issued our report thereon dated November 29, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. The reference number to that finding is 13-01.

Compliance and Other Matters

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

Purpose of this Report

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

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 29, 2013

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the Knox County School District, as of and for the year ended June 30, 2013, and have issued our report thereon dated November 29, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 29, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

KNOX COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	<input checked="" type="checkbox"/> _____	Yes	_____
Noncompliance material to financial statement notes	_____	Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Improving Teacher Quality	84.367
School Improvement Grants, Recovery Act	84.388
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
Title I Grants to Local Educational Agencies, Recovery Act	84.389

Dollar threshold used to distinguish between Type A and Type B program	\$300,000		
Auditee qualified as low risk	<input checked="" type="checkbox"/> _____	Yes	_____ No

(continued)

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

Section II – Financial Statement Findings

13-01

Condition: The District had a bank account operating as an activity fund using the District's federal identification number and an employee as the signatory on the account but the District was not aware of this account and did not have any accounting of the receipts and expenditures flowing through this account.

Criteria: All expenditures and receipts to the District and/or fiduciary funds should follow proper guidelines set forth for tracking and reporting the activity.

Effects: The District's financial statements did not reflect the activity of this unrecorded bank account and the District had no internal control over ensuring proper expenditures and proper recording of receipts regarding this particular unrecorded bank account. This did not affect the federal awards and is not a federal award finding.

Cause: The District's financial statements did not reflect the activity of this unrecorded bank account.

Recommendations: The District needs to ensure that all employees and local banks are aware that accounts cannot be open using the District's federal identification number and all activity fund monies must run through the one account that is allowed at the school level (unless gaming activity account). The District should also follow up with local area banks periodically to ensure that any accounts using the District's federal identification number is authorized.

Views of Responsible Officials:

We were not aware that an account existed at Hometown Bank with the federal identification of the Knox County Board of Education. We have contacted the bank and the account has been frozen pending our review of the account history.

Section III – Federal Award Findings

None

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

Status of Prior Year Findings

There were no prior year audit findings. However, last year an activity fund finding was erroneously listed on the Schedule of Findings and Questioned Costs as a financial statement finding.

MANAGEMENT LETTER COMMENTS

Members of the Board of Education
Knox County School District
Barbourville, Kentucky

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

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 29, 2013, on the basic financial statements of Knox County School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 29, 2013

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2013

Prior Year Comments – School Activity Funds

Central Elementary - This management letter comment was erroneously recorded in the financial statement findings on the Schedule of Findings and Questioned Costs in the prior year:

1. Central Elementary has not complied with the following control as stipulated in the Accounting Procedures for Kentucky School Activity Funds “Redbook” for three consecutive years:
Teachers/sponsors not turning in money collected from students or other sources timely.

This deficiency appears to have been corrected in the current year.

Comments that were on the Management Letter in the prior year are as follows:

Girdler Elementary

2. Multiple Receipt Forms Instances of teachers/sponsors not turning in money collected from students or other sources timely.

This deficiency appears to have been corrected in the current year.

Knox County Middle School

3. Instances of teachers/sponsors not turning in money collected from students or other sources timely.

This deficiency appears to have been corrected in the current year.

4. Instances of receipts not being deposited timely.

This deficiency appears to have been corrected in the current year.

5. Purchase orders are being utilized; however there were instances of the purchase orders being approved after the obligation of funds or purchase being made.

This deficiency was not corrected in the current year.

6. Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

This deficiency appears to have been corrected in the current year.

Current Year Comments –School Activity Funds

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

Knox Central High School

- 1 Only one bank account is allowed at a school for activity funds except for a gaming account as prescribed in the Redbook. Knox Central High School had an additional bank account using the District’s federal employer identification number. In addition that bank account had a beginning balance of \$8117 which we could not determine the nature of the balance. The bank statements were the only documentation provided and therefore, we could not audit the invoices and supporting documentation for the receipts and disbursements during the current year. It also appears a check for \$4,000 was written to a former employee after the current audit year; however, auditors were unable to make a determination if this amount was in accordance with Red Book guidelines. We also could not determine with certainty the duration of this bank account. We recommend that management do a thorough examination of the activity that has gone through this account since

inception to verify that all expenditures were in accordance with Red Book guidelines. Management has fully cooperated and has taken action to close this account as of the date of this report.

Management response: We were not aware that an account existed at Hometown Bank with the federal identification of the Knox County Board of Education. We have contacted the bank and the account has been frozen pending our review of the account history.

Knox Middle School

2. Purchase orders are being utilized; however there were instances of the purchase orders being approved after the obligation of funds or purchase being made.

Management response: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, an EPES Purchase Order will be generated so the expenditure can be purchased or ordered.

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

Management response: Before any payments from the school activity funds are processed, an original invoice/ receipt will be present and have signature approval of the principal and the faculty sponsor. If the original invoice/receipt is not available, then a Standard Invoice (F-SA-8) will be completed and signed by the principal, faculty sponsor, and the payee before payment will be processed.

Central Elementary

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

Management response: The principal or school treasurer will issue tickets to the faculty member that is responsible for the sales for each event along with the Requisition and Report of Ticket Sales form (F-SA-1). This person will determine the number of tickets to be used, record the beginning ticket number and sign the form and return the money.

5. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.

Management response: Teachers, sponsors, and students shall use the District two part Multiple Receipt Form (Form F-SA-6) when collecting money. All students third grade and above shall sign the Multiple Receipt Form.

Dewitt Elementary

6. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment. Purchase orders were stamped but the invoice should be cancelled.

Management response: The check number and date paid shall be clearly noted on the invoices and purchase orders to prevent duplicate payment.

Girdler Elementary

7. Invoices were not stamped or clearly cancelled with "Paid" to prevent double payment. Purchase orders were stamped but the invoice should be cancelled.

Management response: The check number and date paid shall be clearly noted on the invoices and purchase orders to prevent duplicate payment.

Jesse D. Lay Elementary

8. Activity funds are to be used for the benefit of the students only. Any donations from outside groups or income from sources to the school should be deposited into student accounts and not staff accounts and to ensure expenditures of this income are for the benefit of the students.

Management response: Any donation of \$1,000 or less may be deposited into the school activity accounts and shall be credited to student accounts and expended for the benefit of the students.

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

Management response: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, an EPES Purchase Order will be generated so the expenditure can be purchased or ordered.

Knox Central High School

10. Only one bank account is allowed at a school for activity funds except for a gaming account as prescribed in the Redbook. Knox Central High School had an additional bank account using the District's federal employer identification number. In addition that bank account had a beginning balance of \$8117 which we could not determine the nature of the balance. The bank statements were the only documentation provided and therefore, we could not audit the invoices and supporting documentation for the receipts and disbursements during the current year. It appears a check was written to a former employee and signatory on the account after the audit year, however auditors were unable to make a determination if this amount was in accordance with Red Book guidelines.

Management response: We were not aware that an account existed at Hometown Bank with the federal identification of the Knox County Board of Education. We have contacted the bank and the account has been frozen pending our review of the account history.

Management Overall response to deficiencies in internal controls in the school activity funds: The District conducted School Activity Fund New Redbook training on November 8, 2013 for all principals and bookkeepers. An additional training session will be provided to review the basic school accounting procedures and the deficiencies noted in this audit.