

# McLean County School District



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**Report on Audit of Financial Statements  
and Supplementary Information**  
for the year ended June 30, 2013



**ALFORD, NANCE & JONES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**MCLEAN COUNTY SCHOOL DISTRICT**  
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**for the year ended June 30, 2013**

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## INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of the Board of Education  
McLean County School District  
Calhoun, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the McLean 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 McLean County School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 McLean 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 on pages 3 through 7 and 37 through 39 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 McLean County School District's basic financial statements. The combining and individual nonmajor fund financial statements/schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements/schedules 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the McLean 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McLean County School District's internal control over financial reporting and compliance.

*Alford, Nance & Jones, LLP*

Alford, Nance, & Jones, LLP  
Madisonville, KY  
November 8, 2013



McLEAN COUNTY PUBLIC SCHOOL DISTRICT – CALHOUN,  
KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013

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

**FINANCIAL HIGHLIGHTS**

- The General Fund balance for the District was \$2,499,500 at the beginning of the year. The ending balance for the General Fund for the District was \$2,381,706. This represents a current year excess of Expenditures over Revenue of \$117,794.
- Excluding beginning balance, inter-fund transfers, and on-behalf of payments made by the state, the General Fund had \$9,448,403 in revenue, which primarily consisted of the state program (SEEK), property taxes, utility taxes, and motor vehicle taxes. Excluding inter-fund transfers and on-behalf of payments, there was \$9,650,698 in General Fund expenditures.
- The District has purchased two busses in previous years in an effort to keep our fleet current. By purchasing busses instead of leasing them, the district was saving approximately \$30,000 in interest payments. However, due to funding cuts, the District was only able to purchase one bus this 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 in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally 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 assets and related debt are also supported by taxes and intergovernmental revenues.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This 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 funds 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 childcare, food service operations and community education. All other activities of the District are included in the governmental funds.

**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.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$6,771,541 as of June 30, 2013. Net position decreased by \$419,525 from the June 30, 2012 balance of \$7,191,066.

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

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

### Net Position - Comparative for the periods ending June 30, 2013 and June 30, 2012

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Current Assets	\$2,954,134	\$4,204,885	\$274,762	\$272,880	\$3,228,896	\$4,477,765
Capital Assets	<u>13,790,914</u>	<u>13,555,452</u>	<u>124,833</u>	<u>132,423</u>	<u>13,915,747</u>	<u>13,687,875</u>
<b>Total Assets</b>	16,745,048	17,760,337	399,595	405,303	17,144,643	18,165,640
Current Liabilities	1,186,560	1,257,204	5,545	10,580	1,192,105	1,267,784
Noncurrent Liabilities	<u>9,174,484</u>	<u>9,700,277</u>	<u>6,513</u>	<u>6,513</u>	<u>9,180,997</u>	<u>9,706,790</u>
<b>Total Liabilities</b>	10,361,044	10,957,481	12,058	17,093	10,373,102	10,974,574
<b>Net Assets</b>						
Investment in capital assets (net of debt)	4,366,081	3,333,040	124,833	132,423	4,490,914	3,465,463
Restricted	256,510	1,301,079			256,510	1,301,079
Unrestricted Assets	<u>1,761,413</u>	<u>2,168,737</u>	<u>262,704</u>	<u>255,787</u>	<u>2,024,117</u>	<u>2,424,524</u>
<b>Total Net Position</b>	<u>\$6,384,004</u>	<u>\$6,802,856</u>	<u>\$387,537</u>	<u>\$388,210</u>	<u>\$6,771,541</u>	<u>\$7,191,066</u>

### Comments

- The District's total revenues for the fiscal year ended June 30, 2013, net of inter-fund transfers, were \$15,971,133. The District's total expenditures for the same period were \$16,390,658. Expenditures exceeded revenues by \$419,525.
- Instruction was the major expenditure category and accounted for 54.2% of total expenditures. Plant operation and maintenance was the next highest expenditure at 9.6%.

**Revenues - Comparative for the periods ending June 30, 2013 and June 30, 2012**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>Revenues:</b>						
Property Tax	\$2,131,237	\$1,959,866			\$2,131,237	\$1,959,866
Motor Vehicle Tax	406,930	370,258			406,930	370,258
Unmined Mineral Tax	34,421	29,772			34,421	29,772
Utilities Tax	569,688	474,873			569,688	474,873
Other Tax						
Investments	21,997	38,361	1,292	2,493	23,289	40,854
Other Local Revenue	15,009	21,116			15,009	21,116
Insurance Proceeds						
Sale of District Assets	6,113	-4,907			6,113	-4,907
State and Formula Grants	8,935,254	9,144,687	688,418	692,113	9,623,672	9,836,800
Program Revenues:						
Charges for Services	47,440	46,480	382,779	392,156	430,219	438,636
Operating grants and contributions	1,815,035	2,074,942			1,815,035	2,074,942
Capital grants and contributions	915,520	818,245			915,520	818,245
<b>Total revenues</b>	<b>\$14,898,644</b>	<b>\$14,973,693</b>	<b>\$1,072,489</b>	<b>\$1,086,762</b>	<b>\$15,971,133</b>	<b>\$16,060,455</b>

**Expenses - Comparative for the periods ending June 30, 2013 and June 30, 2012**

	June 30, 2013	June 30, 2012
<b>Expenses:</b>		
<b>Governmental Activities:</b>		
Instruction	\$8,877,530	\$8,792,198
Student Support Services	537,061	558,865
Instructional Staff Support	591,446	570,484
District Administration	733,727	630,213
School Administration	933,850	960,935
Business Support	577,893	452,747
Plant Operation & Maintenance	1,574,992	1,235,311
Student Transportation	994,799	1,015,637
Central Office Support	0	0
Facilities acquisition and construction	0	154,440
Community Service Activities	157,651	146,142
Depreciation (allocated in fiscal year 2006)		
Interest on Long-term Debt	312,826	443,556
Amortization of Bond Costs	25,721	22,303
<b>Business-Type Activities:</b>		
Food Service	1,043,124	1,058,691
Child Care Services	29,176	32,761
Community Education Services	862	1,656
<b>Total expenses</b>	<b>\$16,390,658</b>	<b>\$16,075,939</b>

**Comments on General Fund Budget Comparisons**

- The District’s General Fund Revenues for the fiscal year ended June 30, 2013 totaled \$12,044,962. This is \$2,833,134 more than the \$9,211,828 of revenue that was budgeted in the final working budget. The primary reason for the difference is that GAAP requires our audit to include state contributions to our employee’s retirement, health and life insurance. This is called “On-Behalf” revenue. These funds are not sent directly to the District and are not included in the District’s budget. The “On-Behalf” contribution for the fiscal year ended June 30, 2013 was \$2,477,059.

The following tables present a comparative summary of revenues and expenses of the General Fund for the fiscal year ended June 30, 2013 and June 30, 2012.

<b>General Fund Revenues:</b>	June 30, 2013	June 30, 2012
Local Revenue Sources:	\$2,948,368	\$2,667,466
Property Tax	\$1,887,777	\$1,718,687
Motor Vehicle Tax	406,930	370,258
Unmined Mineral Tax	34,421	29,772
Utilities Tax	569,688	474,873
Investment Earnings	20,301	38,182
Contributions	3,040	
Other Local Aid	26,211	35,694
State Aide	8,938,333	9,142,208
Federal Aide	32,648	31,902
<b>Total General Fund Revenues</b>	<b>\$11,919,349</b>	<b>\$11,841,576</b>

<b>General Fund Expenditures:</b>	June 30, 2013	June 30, 2012
Instruction	\$7,143,105	\$6,996,912
Student Support Services	371,289	430,031
Instructional Staff Support	483,442	475,511
District Administration	594,526	498,518
School Administration	932,370	957,653
Business Support	409,710	259,553
Plant Operation & Maintenance	1,224,201	1,233,744
Student Transportation	879,108	981,479
Central Office Support		
Community Support	10	1,715
Bond Principal & Interest (KISTA)	89,996	94,039
<b>Total expenditures</b>	<b>\$12,127,757</b>	<b>\$11,929,155</b>

**General Fund Budget Allocation**

Approximately 59% of the general fund expenses were spent on instruction, some of which was directed by the Site Based Decision Making Councils.

**Food Service Fund**

Food Service total revenues of \$1,047,831 exceeded expenses of \$1,043,124, net of transfers, by \$4,707.

**Other Major Funds**

Special Revenue fund is categorized as a major fund.

## **BUDGETARY IMPLICATIONS**

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District originally adopted a budget with \$1,470,000 in contingency, 9.8% of the total budget.

The District currently participates in several federal and state grants. Many of these grants are funded on a reimbursement basis. This requires the District to pay the expenses of the grant and then apply for reimbursement. This leaves the District showing a negative end of the month balance in our Special Revenue Account several months throughout the year.

It is extremely important that the District continue to budget conservatively. The District receives approximately 71 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state's revenue falls below its own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 24 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

Questions regarding this report should be directed to Tres Settle, Superintendent or to David C. Stokes, Finance Officer located at 283 Main Street, Post Office Box 245, Calhoun, KY 42327, by phone at (270) 273-5257 or by e-mail at [tres.settle@mclean.kyschools.us](mailto:tres.settle@mclean.kyschools.us) or [david.stokes@mclean.kyschools.us](mailto:david.stokes@mclean.kyschools.us).

**MCLEAN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

<b>Assets</b>	Governmental Activities	Business- Type Activities	Total
<b>Current Assets</b>			
Cash and cash equivalents	\$2,400,596	\$140,646	\$2,541,242
Inventory		93,479	93,479
Receivables:			
Taxes	170,300		170,300
Accounts receivable	1,711		1,711
Intergovernmental – State	51,372		51,372
Intergovernmental – Federal	73,645		73,645
Intergovernmental – Indirect federal		40,637	40,637
Restricted cash	256,510		256,510
<b>Total current assets</b>	<b>2,954,134</b>	<b>274,762</b>	<b>3,228,896</b>
<b>Noncurrent Assets</b>			
Capital assets, net of accumulated depreciation	13,681,095	124,833	13,805,928
Bond deferred charges	155,886		155,886
Less: accumulated amortization	(46,067)		(46,067)
<b>Total noncurrent assets</b>	<b>13,790,914</b>	<b>124,833</b>	<b>13,915,747</b>
<b>Total assets</b>	<b>16,745,048</b>	<b>399,595</b>	<b>17,144,643</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	38,554	51	38,605
Accrued payroll and related expenses	9,005		9,005
Deferred revenue	150,675	5,494	156,169
Accrued interest	95,533		95,533
Current portion of bond obligations	735,963		735,963
Current portion of capital lease obligations	76,830		76,830
Current portion of accrued sick leave	80,000		80,000
<b>Total current liabilities</b>	<b>1,186,560</b>	<b>5,545</b>	<b>1,192,105</b>
<b>Noncurrent Liabilities</b>			
KSBIT assessment	287,000		287,000
Noncurrent portion of bond obligations	8,288,833		8,288,833
Noncurrent portion of capital lease obligations	227,674		227,674
Noncurrent portion of accrued sick leave	370,977	6,513	377,490
<b>Total noncurrent liabilities</b>	<b>9,174,484</b>	<b>6,513</b>	<b>9,180,997</b>
<b>Total liabilities</b>	<b>10,361,044</b>	<b>12,058</b>	<b>10,373,102</b>
<b>Net Position</b>			
Net investment in capital assets	4,366,081	124,833	4,490,914
Restricted for:			
Capital projects/debt service	256,510		256,510
Unrestricted	1,761,413	262,704	2,024,117
<b>Total net position</b>	<b>\$6,384,004</b>	<b>\$387,537</b>	<b>\$6,771,541</b>

The accompanying notes are an integral part of these financial statements.



**MCLEAN COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 2,375,737	\$ 24,859			\$ 2,400,596
Receivables:					
Taxes	170,300				170,300
Accounts receivable	1,711				1,711
Intergovernmental - State		13,686			13,686
Intergovernmental - Federal		73,645			73,645
Restricted cash			\$ 228,247	\$ 28,263	256,510
<b>Total assets</b>	<b>\$ 2,547,748</b>	<b>\$ 112,190</b>	<b>\$ 228,247</b>	<b>\$ 28,263</b>	<b>\$ 2,916,448</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$37,039	\$1,515			\$38,554
Accrued payroll and related expenses	9,005				9,005
Current portion of accrued sick leave	80,000				80,000
Deferred revenue	40,000	110,675			150,675
Payable from restricted assets				-	-
<b>Total liabilities</b>	<b>166,044</b>	<b>112,190</b>	<b>0</b>	<b>0</b>	<b>278,234</b>
<b>Fund Balances</b>					
Restricted for:					
Capital projects			\$ 228,247	\$ 28,263	256,510
Committed:					
SBDM	65,000				65,000
Pavement sealing and repair	150,000				150,000
Vehicles	420,000				420,000
Unassigned:					
General Fund	1,746,704				1,746,704
<b>Total fund balances</b>	<b>2,381,704</b>	<b>0</b>	<b>228,247</b>	<b>28,263</b>	<b>2,638,214</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,547,748</b>	<b>\$ 112,190</b>	<b>\$ 228,247</b>	<b>\$ 28,263</b>	<b>\$ 2,916,448</b>

The accompanying notes are an integral part of these financial statements.

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

Total fund balance per fund financial statements	\$2,638,214
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	13,681,095
Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	147,505
Certain liabilities (such as bonds payable, capital leases, the long-term portion of accrued sick leave and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(10,082,810)</u>
Net position for governmental activities	<u><u>\$6,384,004</u></u>

The accompanying notes are an integral part of these financial statements.

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

	General Fund	Special Revenue Fund	Construction Fund	Total Nonmajor Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes:					
Property	\$1,887,777			\$243,460	\$2,131,237
Motor vehicle	406,930				406,930
Unmined mineral	34,421				34,421
Utilities	569,688				569,688
Earnings on investments	20,301	\$90	\$1,606		21,997
Contributions	3,040	28,860			31,900
Other local revenues	26,211	-			26,211
Intergovernmental - State	8,938,333	567,834		915,521	10,421,688
Intergovernmental - Indirect federal		1,031,769			1,031,769
Intergovernmental - Direct federal	32,648	186,572			219,220
<b>Total revenues</b>	<b>11,919,349</b>	<b>1,815,125</b>	<b>1,606</b>	<b>1,158,981</b>	<b>14,895,061</b>
<b>Expenditures:</b>					
Current:					
Instruction	7,143,105	1,078,864			8,221,969
Support services:					
Student	371,289	157,243			528,532
Instruction staff	483,442	104,005			587,447
District administrative	594,526	127,220			721,746
School administrative	932,370				932,370
Business	409,710	166,750			576,460
Plant operation and maintenance	1,224,201	-			1,224,201
Student transportation	879,108	57,657			936,765
Community service activities	10	158,386			158,396
Capital outlay:					
Facilities acquisition and construction			1,051,210		1,051,210
Debt service:					
Principal	76,915			730,000	806,915
Interest	13,081			304,446	317,527
<b>Total expenditures</b>	<b>12,127,757</b>	<b>1,850,125</b>	<b>1,051,210</b>	<b>1,034,446</b>	<b>16,063,538</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(208,408)</b>	<b>(35,000)</b>	<b>(1,049,604)</b>	<b>124,535</b>	<b>(1,168,477)</b>
<b>Other Financing Sources (Uses)</b>					
Sale of equipment	6,112				6,112
Transfers in	119,500	35,000	131,228	536,370	822,098
Transfers out	(35,000)			(787,098)	(822,098)
<b>Total other financing sources (uses)</b>	<b>90,612</b>	<b>35,000</b>	<b>131,228</b>	<b>(250,728)</b>	<b>6,112</b>
<b>Net change in fund balance</b>	<b>(117,796)</b>	<b>0</b>	<b>(918,376)</b>	<b>(126,193)</b>	<b>(1,162,365)</b>
<b>Fund balance, July 1, 2012</b>	<b>2,499,500</b>	<b>0</b>	<b>1,146,623</b>	<b>154,456</b>	<b>3,800,579</b>
<b>Fund balance, June 30, 2013</b>	<b>\$2,381,704</b>	<b>\$0</b>	<b>\$228,247</b>	<b>\$28,263</b>	<b>\$2,638,214</b>

The accompanying notes are an integral part of these financial statements.

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

Net change in total fund balances per fund financial statements	\$ (1,162,365)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense is less than capital outlays for the year.	247,147
Bond issuance costs, call premiums and discounts are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and amortized over the remaining life of the bonds. The difference is the amount by which the actual costs exceeds amortization expenses for the year.	(25,721)
Certain accruals do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund statements.	(284,828)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net assets.	806,915
	_____
Change in net position of governmental activities	\$ (418,852)

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013**

	Food Service Fund	Nonmajor Enterprise Funds	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$132,510	\$8,136	\$140,646
Inventory	93,479	0	93,479
Accounts receivable			
Miscellaneous			0
Intergovernmental - Indirect federal	40,637		40,637
Total current assets	<u>266,626</u>	<u>8,136</u>	<u>274,762</u>
Noncurrent assets			
Capital assets	701,926		701,926
Less: Accumulated depreciation	<u>(577,093)</u>		<u>(577,093)</u>
Total noncurrent assets	<u>124,833</u>	<u>0</u>	<u>124,833</u>
<b>Total assets</b>	<u>391,459</u>	<u>8,136</u>	<u>399,595</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable		51	51
Due to other funds			0
Deferred revenue	5,494		5,494
Accrued sick leave, current portion			0
Total current liabilities	<u>5,494</u>	<u>51</u>	<u>5,545</u>
Noncurrent liabilities			
Accrued sick leave, noncurrent portion	6,513		6,513
Total noncurrent liabilities	<u>6,513</u>	<u>0</u>	<u>6,513</u>
<b>Total liabilities</b>	<u>12,007</u>	<u>51</u>	<u>12,058</u>
<b>Net Position</b>			
Net investment in capital assets	124,833	0	124,833
Unrestricted	254,619	8,085	262,704
<b>Total net position</b>	<u><u>\$379,452</u></u>	<u><u>\$8,085</u></u>	<u><u>\$387,537</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Service Fund	Nonmajor Enterprise Funds	Total
<b>Operating Revenues:</b>			
Lunchroom sales	\$358,148		\$358,148
Community service activities		\$24,631	24,631
Other operating revenues			0
<b>Total operating revenues</b>	<u>358,148</u>	<u>24,631</u>	<u>382,779</u>
<b>Operating Expenses:</b>			
Salaries and wages	346,517	20,944	367,461
Employee benefits	171,605	3,884	175,489
Purchased professional services	1,911	50	1,961
Other purchased services	33,641	613	34,254
Materials and supplies	467,046	4,547	471,593
Depreciation	19,181	-	19,181
Other operating expenses	3,223	-	3,223
<b>Total operating expenses</b>	<u>1,043,124</u>	<u>30,038</u>	<u>1,073,162</u>
<b>Operating income/(loss)</b>	<u>(684,976)</u>	<u>(5,407)</u>	<u>(690,383)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Federal grants	535,225	-	535,225
Donated commodities	68,481	-	68,481
State grants	84,712	-	84,712
Interest income	1,265	27	1,292
<b>Total nonoperating revenues (expenses)</b>	<u>689,683</u>	<u>27</u>	<u>689,710</u>
<b>Income (loss) before transfers</b>	4,707	(5,380)	(673)
<b>Change in net position</b>	<u>4,707</u>	<u>(5,380)</u>	<u>(673)</u>
<b>Net position, July 1, 2012</b>	<u>374,745</u>	<u>13,465</u>	<u>388,210</u>
<b>Net position, June 30, 2013</b>	<u>\$379,452</u>	<u>\$8,085</u>	<u>\$387,537</u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Food Service Fund	Nonmajor Enterprise Funds	Total
<b>Cash Flows from Operating Activities</b>			
Cash received from:			
Lunchroom sales	\$358,148		\$358,148
Community service activities		\$24,631	24,631
Cash paid to/for:			
Employees	(442,205)	(24,828)	(467,033)
Supplies	(433,460)	(5,265)	(438,725)
Other activities	(38,775)	(50)	(38,825)
<b>Net cash provided (used) by operating activities</b>	<b>(556,292)</b>	<b>(5,512)</b>	<b>(561,804)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Nonoperating grants received	518,834		518,834
<b>Net cash provided by noncapital financing activities</b>	<b>518,834</b>		<b>518,834</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets	(11,591)		(11,591)
	(11,591)		(11,591)
<b>Cash Flows from Investing Activities</b>			
Receipt of interest income	1,265	27	1,292
	1,265	27	1,292
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(47,784)</b>	<b>(5,485)</b>	<b>(53,269)</b>
<b>Balances, beginning of year</b>	<b>180,294</b>	<b>13,621</b>	<b>193,915</b>
<b>Balances, end of year</b>	<b>\$132,510</b>	<b>\$8,136</b>	<b>\$140,646</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	(\$684,976)	(\$5,407)	(\$690,383)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities</b>			
Depreciation	19,181		19,181
On behalf payments	75,917		75,917
Commodities received	68,481		68,481
Change in assets and liabilities			
Receivables	0		0
Inventory	(29,965)		(29,965)
Accounts payable	(4,930)	(105)	(5,035)
Accrued payroll and related expense			0
Other current liabilities	0		0
Deferred revenue	0		0
<b>Net cash provided (used) by operating activities</b>	<b>(\$556,292)</b>	<b>(\$5,512)</b>	<b>(\$561,804)</b>
<b>Schedule of non-cash transactions:</b>			
Donated commodities received from Federal government	\$68,481		
Benefits paid by the state of Kentucky on behalf of District	\$75,917		

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2013**

	<u>Agency Fund</u>	<u>Scholarship Private Purpose Trust Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$216,529	\$10,447
Accounts receivable	25	
Certificates of deposit	<u>15,454</u>	
<b>Total assets</b>	<u><u>\$232,008</u></u>	<u>10,447</u>
 <b>Liabilities</b>		
Accounts payable	\$10,929	
Due to student groups	<u>221,079</u>	
<b>Total liabilities</b>	<u><u>\$232,008</u></u>	<u>0</u>
 <b>Net Position</b>		
Held in trust for private purpose		<u><u>\$10,447</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Scholarship Private Purpose Trust Funds</u>
<b>Additions</b>	
Contributions:	
Private donations	\$50
Net Investment income (loss)	<u>(513)</u>
Total additions	(463)
 <b>Deductions</b>	
Scholarship awards	<u>1,500</u>
Change in net position	(1,963)
Net position, beginning	<u>12,410</u>
Net position, ending	<u><u>\$10,447</u></u>

The accompanying notes are an integral part of these financial statements.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**1. Reporting Entity**

The McLean County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the McLean County School District (District). The Board 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 account groups relevant to the operation of the McLean County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The McLean County School District has one blended component unit.

Blended Component Unit:

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

**2. Summary of Significant Accounting Policies**

**(a) 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 and those that are considered business-type activities. The effect of interfund activity has been substantially removed from these statements.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation, 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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(a) Basis of Presentation, continued**

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 financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

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

The District had the following funds:

Governmental Fund Types

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- 2) 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 as referenced in the table of contents. This is a major fund of the District.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(a) Basis of Presentation, continued**

Governmental Fund Types, continued

- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).
  - (a) 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 and for the corresponding debt service.
  - (b) Facility Support Program (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan and for the corresponding debt service.
  - (c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The District has three enterprise funds: the School Food Service Fund, Child Care Fund and the Community Education Fund.

- 1) The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.
- 2) The Community Education Fund is used to account for activities and/or classes offered to the community.
- 3) The Child Care Fund is used to account for activities in the District's three licensed child care centers.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The Private Purpose Trust Funds are used to account for three separate scholarship funds, the Hopkins Memorial, Cardwell Memorial and Muster Memorial scholarships. All resources of these funds may be used to award scholarships in the areas specified in the trust arrangements.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(b) Basis of Accounting**

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

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; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) 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.

**(c) 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 governmental 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 one thousand dollars (\$1,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(d) Cash and Cash Equivalents/Restricted Cash/Investments**

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements. (See Notes 4 and 5)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 4)

State statutes authorize the District to invest in obligations of the U.S. Treasury, U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

**(e) Inventories/Commodities**

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method. For the purposes of the statement of cash flows, federal grants received do not include noncash commodities received in the amount of \$68,481.

**(f) 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. Bond discounts and premiums are netted against the bond principle and issuance costs are recorded as deferred charges in the government-wide financial statements. Bond discounts, premiums and issuance costs are amortized on a straight-line basis over the life of the bonds.

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

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(g) Net Position and Fund Balance**

District-Wide Financial Statements

Net position on the Statement of Net Position includes the following:

Net investment in capital assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Projects/Debt Service – The component of net position that reports the financial resources restricted to pay for construction activities or related debt service.

Unrestricted – The difference between the assets and liabilities that is not reported in Net investment in Capital Assets, and Net Position Restricted for Capital Projects/Debt Service.

Governmental Fund Financial Statements

In July 2010, the District adopted Statement of Governmental Accounting standards No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, in the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned fund balance. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable fund balances are those amounts that cannot be spent because they are either: (1) generally, amounts that are not expected to be converted to cash, such as inventories or prepaid amounts or (2) amounts that are required to be maintained intact, such as the principal of a permanent fund. The District did not have a nonspendable fund balance at June 30, 2013.

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. At June 30, 2013, the District had \$228,247 restricted in the Construction Fund and \$28,263 restricted in the SEEK fund for capital projects.

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. At June 30, 2013, the District had \$65,000 committed as carryover for SBDM, \$150,000 for pavement sealing and repairs and \$420,000 toward future vehicle purchases.

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 results 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. The District had no assignments at June 30, 2013.

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.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**2. Summary of Significant Accounting Policies, continued**

**(h) 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 as non-operating 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.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**(i) Estimates**

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

**(j) Compensated Absences (Accrued Sick Leave)**

The McLean County School District allows employees to accumulate and carry over sick days from year to year. The maximum number of days which may be earned per year vary from seven to ten days depending upon employment terms. A maximum of two personal days may be added to the sick days carryover each year. The accumulated amount of days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Separation of employment for any reason other than retirement results in the employee forfeiting all accumulated sick and personal days. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience.

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

**(k) Encumbrance Accounting**

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. An assignment of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2013. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

**3. Property Taxes**

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the McLean County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 52 cents per \$100 of

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**3. Property Taxes, continued**

assessed valuation on real estate and 52 cents per \$100 on tangible property, of which 5.9 cents is for participation in the Facility Support Program, and 51.5 cents per \$100 of assessed valuation on motor vehicles.

**4. Deposits**

At June 30, 2013, the carrying amount of the District's deposits was \$ 3,039,842 (excluding cash on hand of \$340) and the bank balance was \$3,788,552. Of the bank balances, \$325,523 was insured by federal depository insurance and \$3,463,029 was covered by collateral held by the pledging bank's agent.

The District's deposits at June 30, 2013 consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
First Security Bank	\$ 63,527	\$ 63,166
Independence Bank	3,713,029	2,964,823
Sacramento Deposit Bank	11,996	11,853
	<b>\$ 3,788,552</b>	<b>\$ 3,039,842</b>
Reported in the financial statements:		
Governmental funds - Cash and cash equivalents		\$ 2,657,106
Proprietary funds (excluding cash on hand, \$340)		140,306
Fiduciary funds - Cash and cash equivalents		226,976
- Certificate of deposit		15,454
		<b>\$ 3,039,842</b>

**5. Restricted Cash**

Restricted cash at June 30, 2013 consists of the following:

SEEK Capital Outlay Fund (for capital projects)	\$ 28,263
Construction fund (for capital projects)	228,247
Total Restricted Cash	<b>\$ 256,510</b>

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**6. Capital Assets**

During the year ended June 30, 2013, the following changes occurred in capital assets:

<u>Governmental Activities:</u>	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Not depreciated:				
Land	\$ 65,267	\$ -	\$ -	\$ 65,267
Construction in progress	335,715	-	335,715	-
Total not being depreciated	<u>400,982</u>	<u>-</u>	<u>335,715</u>	<u>65,267</u>
Depreciated:				
Land improvements	1,019,876	-	-	1,019,876
Buildings and improvements	20,401,121	1,383,286	-	21,784,407
Technology equipment	1,558,813	93,274	-	1,652,087
Vehicles	2,694,605	92,201	450,081	2,336,725
General	567,259	25,134	-	592,393
Total being depreciated	<u>26,241,674</u>	<u>1,593,895</u>	<u>450,081</u>	<u>27,385,488</u>
Less: accumulated depreciation				
Land improvements	775,531	20,850	-	796,381
Buildings and improvements	9,084,013	674,108	-	9,758,121
Technology equipment	1,189,830	137,868	-	1,327,698
Vehicles	1,761,606	159,070	450,081	1,470,595
General	397,727	19,138	-	416,865
Total accumulated depreciation	<u>13,208,707</u>	<u>1,011,034</u>	<u>450,081</u>	<u>13,769,660</u>
Depreciated assets, net	<u>13,032,967</u>	<u>582,861</u>	<u>-</u>	<u>13,615,828</u>
Governmental Activities Capital Assets - Net	<u>\$ 13,433,949</u>	<u>\$ 582,861</u>	<u>\$ 335,715</u>	<u>\$ 13,681,095</u>
Business-Type Activities:				
Depreciated:				
Food service equipment	\$ 671,525	\$ 11,591	\$ -	\$ 683,116
Technology equipment	18,810	-	-	18,810
Total being depreciated	<u>690,335</u>	<u>11,591</u>	<u>-</u>	<u>701,926</u>
Less: accumulated depreciation				
Food service equipment	541,105	18,094	-	559,199
Technology equipment	16,807	1,087	-	17,894
Total accumulated depreciation	<u>557,912</u>	<u>19,181</u>	<u>-</u>	<u>577,093</u>
Business-Type Activities Capital Assets - Net	<u>\$ 132,423</u>	<u>\$ (7,590)</u>	<u>\$ -</u>	<u>\$ 124,833</u>

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**6. Capital Assets, continued**

Depreciation expense was charged to governmental functions as follows:

Instruction	\$	560,931
Support services:		
Student		9,044
Instruction support services		4,398
District administration		18,697
School administration		3,966
Business		1,433
Plant operation and maintenance		254,894
Student transportation		155,188
Community service activities		<u>2,483</u>
Total depreciation expense	<u>\$</u>	<u>1,011,034</u>

**7. Long-Term Debt**

**Revenue Bonds**

The District issues debt to provide funds for the acquisition and construction of major capital facilities and improvements. The purpose, original amounts, issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>
Refunding Issue of August, 2002	\$ 3,370,000	1.35% - 3.80%
Issue of December, 2005	430,000	4.00% - 4.25%
Issue of July, 2006	1,230,000	3.75% - 4.40%
Refunding Issue of March, 2008	1,625,000	2.25% - 3.40%
Issue of April, 2008	1,945,000	3.00% - 3.75%
Refunding Issue of March, 2009	1,025,000	2.00% - 3.50%
Refunding Issue of October 2011	2,530,000	1.00% - 2.625%
Issue of June 2012	1,410,000	1.05% - 3.30%

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002, dated August 1, 2002 in the amount of \$3,370,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1994. The KSFCC is participating in approximately 37% of the debt service of the bonds. Net proceeds of \$3,299,000 were placed in an escrow account from which investments were purchased for the purpose of generating resources for the future debt service payments on \$3,025,000 of refunded debt. As a result, \$3,025,000 of the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1994B are considered to be defeased and the liability has been removed from the long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$238,214 and resulted in an economic gain of \$201,019. At June 30, 2013, \$380,000 of the in-substance defeased debt is outstanding.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**7. Long-Term Debt, continued**

**Revenue Bonds, continued**

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2005, dated December 28, 2005 in the amount of \$430,000 were issued for the purpose of financing the cost, not otherwise provided, to complete improvements at McLean County High School and Livermore Elementary School. The KSFCC is not participating in the debt service of the bonds.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2006, dated July 1, 2006 in the amount of \$1,230,000 were issued for the purpose of financing improvements at Sacramento Elementary School. The KFSCC is liable for 100% of the debt service of the bonds.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2008, dated March 1, 2008 in the amount of \$1,625,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1998, which have been paid in full. The KSFCC is participating in approximately 9% of the debt service of the bonds. This current refunding was undertaken to reduce total debt service payments over the next ten years by \$90,554 and resulted in an economic gain of \$71,545.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2008, dated April 1, 2008 in the amount of \$1,945,000 were issued for the purpose of financing HVAC replacement at the McLean County High School. The KFSCC is participating in approximately 56% of the debt service of the bonds.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2009, dated March 1, 2009 in the amount of \$1,025,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 1999, which have been paid in full. The KSFCC is participating in approximately 63% of the debt service of the bonds. This current refunding was undertaken to reduce total debt service payments over the next ten years by \$45,934 and resulted in an economic gain of \$36,989.

McLean County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2011, dated October 1, 2011 in the amount of \$2,530,000, were issued for the purpose of refunding and defeasing the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2003. Net proceeds of \$2,468,174 were placed in an escrow account from which investments were purchased for the purpose of generating resources for the future debt service payments on \$2,320,000 of refunded debt. As a result, \$2,320,000 of the McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2003 are considered to be defeased and the liability has been removed from the long-term debt. This advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$228,762 and resulted in an economic gain of \$197,103. The KSFCC is not participating in the debt service of the bonds. In February, 2013, the remaining balance of the defeased 2003 bonds was redeemed.

McLean County School District Finance Corporation School Building Revenue Bonds, Series of 2012, dated June 1, 2012 in the amount of \$1,410,000 were issued for the purpose of financing HVAC replacement at the Livermore Elementary School. The KFSCC is liable for 100% of the debt service of the bonds.

**Participation Agreements**

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. Receipts from the KSFCC are recorded as intergovernmental-state revenue in the Debt Service Fund. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bonds issues (see note 12).

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**7. Long-Term Debt, continued**

**Maturities**

The annual debt service requirements to maturity for bonds payable, as of June 30, 2013 are as follows:

YEAR	McLean County School District		School Facility Construction Commission		Total		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2013-14	\$ 377,698	\$ 158,058	\$ 372,302	\$ 126,049	\$ 750,000	\$ 284,107	\$ 1,034,107
2014-15	389,194	145,366	240,806	114,402	630,000	259,768	889,768
2015-16	402,959	133,991	247,041	107,537	650,000	241,528	891,528
2016-17	416,261	121,913	253,739	100,207	670,000	222,120	892,120
2017-18	429,298	109,065	260,702	92,615	690,000	201,680	891,680
2018-19	440,682	95,484	259,318	83,757	700,000	179,241	879,241
2019-20	457,415	85,636	187,585	74,894	645,000	160,530	805,530
2020-21	467,450	75,282	192,550	68,499	660,000	143,781	803,781
2021-22	482,149	63,739	197,851	61,768	680,000	125,507	805,507
2022-23	491,727	51,387	208,273	54,916	700,000	106,303	806,303
2023-24	215,985	38,000	214,015	47,355	430,000	85,355	515,355
2024-25	224,956	29,501	225,044	39,504	450,000	69,005	519,005
2025-26	228,665	20,665	231,335	31,265	460,000	51,930	511,930
2026-27	153,154	11,715	216,846	23,227	370,000	34,942	404,942
2027-28	159,251	5,972	155,749	16,626	315,000	22,598	337,598
2028-29	-	-	80,000	11,385	80,000	11,385	91,385
2029-30	-	-	85,000	8,745	85,000	8,745	93,745
2030-31	-	-	90,000	5,940	90,000	5,940	95,940
2031-32	-	-	90,000	2,970	90,000	2,970	92,970
	<u>\$ 5,336,844</u>	<u>\$ 1,145,774</u>	<u>\$ 3,808,156</u>	<u>\$ 1,071,661</u>	<u>\$ 9,145,000</u>	<u>\$ 2,217,435</u>	<u>\$ 11,362,435</u>

**Other Long-Term Debt**

The Kentucky School Boards Insurance Trust (KSBIT) has notified all past and present members that they will be assessed to make up for a growing deficit in the Workers' Compensation Self-Insurance and/or Property and Liability pools. The District has recorded a long-term liability of \$287,000 (\$111,000 for Property and Liability coverage and \$176,000 for Workers' Compensation liability) using preliminary assessments based on best estimate by KSBIT. No payment terms have been established as of June 30, 2013.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**7. Long-Term Debt, continued**

During the year ended June 30, 2013, the following changes occurred in the long-term debt:

	Balance July 1,2012	Additions	Deletions	Balance June 30,2013	Due Within One Year
Government activities					
Revenue Bonds:					
Issue of Aug. 2002	\$ 730,000	\$ -	\$ 360,000	\$ 370,000	370,000
Issue of Dec. 2005	395,000	-	5,000	390,000	10,000
Issue of July 2006	1,005,000	-	50,000	955,000	55,000
Issue of Mar. 2008	1,265,000	-	100,000	1,165,000	110,000
Issue of Apr. 2008	1,745,000	-	55,000	1,690,000	50,000
Issue of Feb 2009	820,000	-	70,000	750,000	65,000
Issue of Oct 2011	2,505,000	-	30,000	2,475,000	30,000
Issue of June 2012	1,410,000	-	60,000	1,350,000	60,000
	<u>9,875,000</u>	<u>-</u>	<u>730,000</u>	<u>9,145,000</u>	<u>750,000</u>
Net deferred amounts for issuance premiums					
discounts and call premiums	(134,241)	-	(14,037)	(120,204)	(14,037)
Total bonds payable	<u>9,740,759</u>	<u>-</u>	<u>715,963</u>	<u>9,024,796</u>	<u>735,963</u>
Capital leases	381,419		76,915	304,504	76,830
Compensated absences	450,977	49,453 (a)	49,453	450,977	80,000
KSBIT assessment	-	287,000	-	287,000	-
	<u>\$ 10,573,155</u>	<u>\$ 336,453</u>	<u>\$ 842,331</u>	<u>\$ 10,067,277</u>	<u>\$ 892,793</u>
Business-type activities					
Compensated absences	<u>\$ 6,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,513</u>	<u>\$ -</u>

(a) net of increases/decreases due to transfer to or from other districts.

**8. Capital Lease Obligations**

The District has entered into various lease agreements with KISTA for financing the acquisitions of school buses. The KISTA lease payments are paid by the General Fund and reported as debt service. The following is an analysis of leased property under capital leases by class:

KISTA Leases	Class of Property	Cost	Accumulated Depreciation
2000B, 2004, 2005, 2006B, 2008, 2009, 2010	Vehicles(10 buses)	\$769,184	\$472,613

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**8. Capital Lease Obligations, continued**

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2013:

Year Ending June 30,	Capital Lease Obligations
2014	\$ 87,420
2015	74,835
2016	58,206
2017	54,748
2018	36,221
2019	16,393
2020	8,185
Total minimum lease payments	336,008
Less: Amount representing interest	(31,504)
Present Value of Net Minimum Lease Payments	\$ 304,504

**9. Retirement Plans**

**KTRS**

The McLean County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% for employees hired before July 1, 2008 and 14.105% for employees started their account after July 1, 2008 for employees not paid with federal funds. If employees are paid salaries by federal programs, those programs pay the respective matching percentages.

The McLean County School District's total payroll for the year was \$8,973,804. The payroll for employees covered under KTRS was \$6,954,808. For the year ended June 30, 2013, the Commonwealth contributed \$827,050 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2013, 2012 and 2011 were \$161,075, \$109,206 and \$89,925, respectively, which represent those employees covered by federal programs.

**CERS**

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**9. Retirement Plans, continued**

**CERS, continued**

supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members who began participation before September 1, 2008 are required to contribute 5% of their annual creditable compensation. An additional 1% non-refundable health insurance contribution is required for employees who begin participation on or after September 1, 2008. The District is required to contribute at an actuarially determined rate. The current rate is 19.55% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$380,446, \$384,603 and \$307,799, respectively, equal to the required contributions for each year.

**Defined Contribution**

The District makes available various 401(k) and 403(b) defined contribution pension plans for all regular full-time and part-time employees. These Plans are administered by independent third party administrators. Employees are allowed to contribute any amount to the Plans up to the Internal Revenue Code maximum allowable amounts. The District does not contribute to the plans but they retain authority to amend or terminate these plans. During the year ended June 30, 2013, employees of the District contributed \$34,850 to the 401(k) plans and \$57,129 to the 403(b) plans.

**10. Deferred Compensation**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administering involvement and who do not perform the investing functions for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its financial statements. The District does not contribute to these plans, and employees of the District contributed \$9,375 to these plans during the year ended June 30, 2013.

**11. Post Employment Health Care Benefits**

Plan description – In addition to the pension benefits described in Note 9, Kentucky Revised Statute 161.675 requires KTRS to provide access to 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 and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. The premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members' salary for the 2012-2013 fiscal year. The District's contributions to the Retiree Medical Insurance Fund for the years ending June 31, 2013, 2012 and 2011 were \$62,565, \$30,587 and \$15,371 respectively.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**12. Contingencies**

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

As reported in Note 7 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the bond issues of 2002 (37%), 2006 (100%), 2008-ref(9%),2008(56%), 2009-ref(63%) and 2012(100%) In the unlikely event the KSFCC defaults on their portion of the debt, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2013, was \$4,879,817.

**13. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

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

**14. Deficit Operating/Fund Balances**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues under expenditures resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

General Fund	\$	117,795
Construction Fund	\$	918,376
SEEK Capital Outlay	\$	126,194
Child Care Fund	\$	5,718

**15. Interfund Balances and Transfers**

There were no interfund balances as of June 30, 2013.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**15. Interfund Balances and Transfers, continued**

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

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
<u>Nonmajor Governmental Funds:</u>			
Capital Projects (SEEK)	General Fund	Technology, supplies	\$ 119,500
Capital Projects (SEEK)	Construction	Fund projects	131,228
Capital Projects (SEEK)	Debt Service	Debt Payments	18,364
Capital Projects (FSPK)	Debt Service	Debt Payments	<u>518,006</u>
Total Nonmajor governmental funds			787,098
General Fund	Special Revenue	KETS match	30,000
General Fund	Special Revenue	Community Ed. match	5,000
Total transfers			<u><u>\$ 822,098</u></u>

**16. COBRA**

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

**17. Commitments**

The District had the following outstanding construction projects, as of June 30, 2013, evidenced by contractual commitments, purchase orders and BG-1 forms, as applicable.

<u>Project</u>	<u>Incurred- to-date</u>	<u>Commitment Remaining</u>	<u>Total</u>
Livermore Elementary - Carpet	-	90,300	90,300
	<u>\$ -</u>	<u>\$ 90,300</u>	<u>\$ 90,300</u>

**18. On-behalf Payments**

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2013. The amounts are included in the General Fund, Debt Service Fund and Food Service Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments are recorded as additional instruction expense and the health insurance, life insurance, flexible spending and administrative fees payments are allocated to the various expense functions based on a ratio of employees. The technology fees are recorded in district administration expense. In the Food Services Fund, all of the payments are recorded as additional employee benefits. The debt service payments are recorded as payment of principle and interest expense.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING JUNE 30, 2013**

**18. On-behalf Payments, continued**

Kentucky Teachers Retirement System	\$ 827,050
Health insurance, life insurance, administrative fee, health reimbursement account, net of federal reimbursements	1,672,994
Technology	52,933
Debt Service	<u>498,076</u>
	<u>\$ 3,051,053</u>
Reported in:	
General Fund	\$ 2,477,060
Debt Service Fund	498,076
Proprietary Fund	<u>75,917</u>
	<u>\$ 3,051,053</u>

**19. Subsequent Events**

Management has evaluated subsequent events through November 8, 2013 the date on which the financial statements were available to be issued.

**MCLEAN COUNTY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
From local sources				
Taxes				
Property	\$1,798,895	\$1,716,160	\$1,887,777	\$171,617
Motor vehicle	350,000	350,000	406,930	56,930
Unmined mineral	20,000	15,000	34,421	19,421
Utilities	515,000	465,000	569,688	104,688
Other				0
Earnings on investments	30,000	30,000	20,301	(9,699)
Contributions			3,040	3,040
Other local revenues	12,000	12,000	26,211	14,211
Intergovernmental - Local				0
Intergovernmental - State	6,465,933	6,770,915	6,461,273	(309,642)
Intergovernmental - Federal	20,000	15,000	32,648	17,648
<b>Total revenues</b>	<b>9,211,828</b>	<b>9,374,075</b>	<b>9,442,289</b>	<b>68,214</b>
<b>Expenditures:</b>				
Current:				
Instruction	5,521,961	5,354,954	5,380,461	(25,507)
Support services:				
Student	322,847	368,730	290,348	78,382
Instruction staff	399,752	396,025	377,762	18,263
District administrative	654,733	711,230	533,120	178,110
School administrative	807,876	839,705	741,114	98,591
Business	199,903	176,260	306,712	(130,452)
Plant operation and maintenance	1,418,076	1,548,182	1,139,269	408,913
Student transportation	791,685	869,950	791,905	78,045
Central office			10	(10)
Community service activities			0	0
Debt service:				
Principal	76,915	78,516	76,915	1,601
Interest	13,080	15,523	13,081	2,442
<b>Total expenditures</b>	<b>10,206,828</b>	<b>10,359,075</b>	<b>9,650,697</b>	<b>708,378</b>
<b>Excess (deficit) of revenues over expenditures</b>	<b>(995,000)</b>	<b>(985,000)</b>	<b>(208,408)</b>	<b>776,592</b>
<b>Other Financing Sources (Uses):</b>				
Property insurance proceeds			6,112	6,112
Capital leases			0	0
Transfers in			119,500	(119,500)
Transfers out	(35,000)	(35,000)	(35,000)	0
Contingency	(1,470,000)	(1,700,000)		1,700,000
<b>Total other financing sources (uses)</b>	<b>(1,505,000)</b>	<b>(1,735,000)</b>	<b>90,612</b>	<b>1,825,612</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>(2,500,000)</b>	<b>(2,720,000)</b>	<b>(117,796)</b>	<b>2,602,204</b>
<b>Fund balance, July 1, 2012</b>	<b>2,500,000</b>	<b>2,499,500</b>	<b>2,499,500</b>	<b>0</b>
<b>Fund balance, June 30, 2013</b>	<b>\$0</b>	<b>(\$220,500)</b>	<b>\$2,381,704</b>	<b>\$2,602,204</b>

**MCLEAN COUNTY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues:</b>				
From local sources:				
Earnings on investments			\$ 90	\$ 90
Contributions			28,860	28,860
Other local revenues		\$ 191	-	(191)
Intergovernmental - State	\$ 468,244	621,410	567,834	(53,576)
Intergovernmental - Indirect federal	1,167,720	1,418,601	1,031,769	(386,832)
Intergovernmental - Direct federal	(53,848)	50,455	186,572	136,117
<b>Total revenues</b>	<u>1,582,116</u>	<u>2,090,657</u>	<u>1,815,125</u>	<u>(275,532)</u>
<b>Expenditures:</b>				
Current:				
Instruction	1,005,763	1,289,461	1,078,864	210,597
Support services:				
Student	123,120	199,054	157,243	41,811
Instruction staff	10,800	116,010	104,005	12,005
District administrative	93,925	126,008	127,220	(1,212)
School administrative				0
Business	184,241	163,544	166,750	(3,206)
Plant operation and maintenance	10,357	10,356	-	10,356
Student transportation	44,609		72,600	14,943
Community services	144,301	148,624	158,386	(9,762)
Capital outlay:				
Facilities acquisition and construction				0
<b>Total expenditures</b>	<u>1,617,116</u>	<u>2,125,657</u>	<u>1,850,125</u>	<u>275,532</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>0</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of fixed assets				
Transfers in	35,000	35,000	35,000	0
Transfers out				0
<b>Total other financing sources (uses)</b>	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>	<u>0</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance, July 1, 2012				0
Fund balance, June 30, 2013	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**MCLEAN COUNTY SCHOOL DISTRICT**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS**

**FOR THE YEAR ENDING JUNE 30, 2013**

**Budgetary Process**

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

**Reconciliation between the Budgetary Basis of Accounting and GAAP**

A basis difference exists in the General Fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments, primarily retirement and employee benefits in the General Fund. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

<u>General Fund:</u>	<u>Budget Basis</u>	<u>GAAP Basis</u>	<u>Difference</u>
Revenues:			
Intergovernmental-state	\$ 6,461,273	\$ 8,938,333	\$ 2,477,060
Expenditures:			
Instruction	5,380,461	7,143,105	1,762,644
Support services:			
Student	290,348	371,289	80,941
Instructional staff	377,762	483,442	105,680
District administration	533,120	594,526	61,406
School administration	741,114	932,370	191,256
Business support services	306,712	409,710	102,998
Plant operations maintenance	1,139,269	1,224,201	84,932
Student transportation	791,905	879,108	87,203

**Special Revenue Fund:**

There were no material variances between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**MCLEAN COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents				\$0
Restricted cash		\$28,263		28,263
<b>Total assets</b>	\$0	\$28,263	\$0	\$28,263
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable				\$0
Payable from restricted assets				0
<b>Total liabilities</b>	0	0	0	0
<b>Fund Balances</b>				
Restricted for:				
Capital Projects		\$28,263		28,263
Unassigned:				0
<b>Total fund balances</b>	0	28,263	0	28,263
<b>Total liabilities and fund balances</b>	\$0	\$28,263	\$0	\$28,263

**MCLEAN COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
 BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes:				
Property	\$243,460			\$243,460
Intergovernmental - State	<u>274,546</u>	<u>\$142,899</u>	<u>\$498,076</u>	<u>915,521</u>
<b>Total revenues</b>	<u>518,006</u>	<u>142,899</u>	<u>498,076</u>	<u>1,158,981</u>
<b>Expenditures:</b>				
Debt Service:				
Principal			730,000	730,000
Interest			304,446	304,446
<b>Total expenditures</b>	<u>0</u>	<u>0</u>	<u>1,034,446</u>	<u>1,034,446</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>518,006</u>	<u>142,899</u>	<u>(536,370)</u>	<u>124,535</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in			536,370	536,370
Transfers out	<u>(518,006)</u>	<u>(269,092)</u>		<u>(787,098)</u>
<b>Total other financing sources (uses)</b>	<u>(518,006)</u>	<u>(269,092)</u>	<u>536,370</u>	<u>(250,728)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	0	(126,193)	0	(126,193)
<b>Fund balance, July 1, 2012</b>	<u>0</u>	<u>154,456</u>	<u>0</u>	<u>154,456</u>
<b>Fund balance, June 30, 2013</b>	<u>\$0</u>	<u>\$28,263</u>	<u>\$0</u>	<u>\$28,263</u>

**MCLEAN COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF NET POSITION  
NONMAJOR ENTERPRISE FUNDS  
JUNE 30, 2013**

	<u>Child Care Fund</u>	<u>Community Ed. Fund</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$2,114	\$6,022	\$8,136
Inventory			0
	<u>2,114</u>	<u>6,022</u>	<u>8,136</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	51		51
	<u>51</u>	<u>0</u>	<u>51</u>
<b>Total liabilities</b>			
<b>Net Position</b>			
Unrestricted	2,063	6,022	8,085
	<u>2,063</u>	<u>6,022</u>	<u>8,085</u>
<b>Total net position</b>			
	<u><u>\$2,063</u></u>	<u><u>\$6,022</u></u>	<u><u>\$8,085</u></u>

**MCLEAN COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013**

	Child Care Fund	Community Ed. Fund	Total Nonmajor Enterprise Funds
<b>Operating Revenues:</b>			
Community service activities	\$23,431	\$1,200	\$24,631
Other operating revenues			0
<b>Total operating revenues</b>	<u>23,431</u>	<u>1,200</u>	<u>24,631</u>
<b>Operating Expenses:</b>			
Salaries and wages	20,944		20,944
Employee benefits	3,884		3,884
Purchased professional services	0	50	50
Other purchased services	613	0	613
Materials and supplies	3,735	812	4,547
Other operating expenses			0
<b>Total operating expenses</b>	<u>29,176</u>	<u>862</u>	<u>30,038</u>
<b>Operating gain/(loss)</b>	<u>(5,745)</u>	<u>338</u>	<u>(5,407)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Federal grants			0
State grants			0
Interest income	27		27
<b>Total nonoperating revenues (expenses)</b>	<u>27</u>	<u>0</u>	<u>27</u>
<b>Change in net position</b>	(5,718)	338	(5,380)
<b>Net position, July 1, 2012</b>	<u>7,781</u>	<u>5,684</u>	<u>13,465</u>
<b>Net position, June 30, 2013</b>	<u>\$2,063</u>	<u>\$6,022</u>	<u>\$8,085</u>

**MCLEAN COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Child Care Fund	Community Ed. Funds	Total Nonmajor Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Cash received from:			
Community service activities	\$23,431	\$1,200	\$24,631
Cash paid to/for:			
Employees	(24,828)	0	(24,828)
Supplies	(4,348)	(917)	(5,265)
Other activities	0	(50)	(50)
<b>Net cash provided (used) by operating activities</b>	<b>(5,745)</b>	<b>233</b>	<b>(5,512)</b>
 <b>Cash Flows from Capital and Related Financing Activities</b>			
Purchases of capital assets			0
 <b>Cash Flows from Investing Activities</b>			
Receipt of interest income	27		27
 Net increase (decrease) in cash and cash equivalents	(5,718)	233	(5,485)
 Cash balances, beginning of year	7,832	5,789	13,621
 Cash balances, end of year	<b>\$2,114</b>	<b>\$6,022</b>	<b>\$8,136</b>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	(\$5,745)	\$338	(\$5,407)
 Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Change in assets and liabilities			
Inventory			0
Accounts payable	0	(105)	(105)
Other current liabilities			0
<b>Net cash provided (used) by operating activities</b>	<b>(\$5,745)</b>	<b>\$233</b>	<b>(\$5,512)</b>

**MCLEAN COUNTY SCHOOL DISTRICT  
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
ALL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

School	Cash Balances July 1, 2012	Receipts	Disburse- ments	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
McLean Co. High School	\$76,276	\$811,136	\$587,665	\$99,747	\$25	\$7,581	\$92,191
McLean Co. Middle School	81,267	95,248	113,349	63,166		3,348	59,818
Calhoun Elementary	18,464	106,882	106,509	18,837			18,837
Livermore Elementary	13,256	96,426	90,285	19,397			19,397
Sacramento Elementary	14,754	32,585	35,486	11,853			11,853
<b>Central Office</b>							
Clyde & Troy Ande Memorial	9,052	61	1,000	8,113			8,113
Eubanks Memorial	2,144	1,401	1,000	2,545			2,545
Mary Havenor Scholarship	1,538	11		1,549			1,549
Tilden Humphrey UK Ag	1,248	4	1,252	0			0
FFA	-	4,031		4,031			4,031
Morgan Farley Memorial	848	2,531	3,000	379			379
Cindy West Scholarship	507	1,005	500	1,012			1,012
Special Ed (Hollander)	460	3		463			463
Volleyball (Paulson)	433	3		436			436
Tichner Landscaping UK AG	204	1		205			205
Misc. Scholarships	0	750	500	250			250
	<u>\$220,451</u>	<u>\$952,078</u>	<u>\$940,546</u>	<u>\$231,983</u>	<u>\$25</u>	<u>\$10,929</u>	<u>\$221,079</u>

The Activity Funds cash balances at June 30, 2013 consisted of the following:

Cash and cash equivalents	216,529
Investments(Certificated of Deposit)	15,454
	<u>\$ 231,983</u>

**MCLEAN COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES  
MCLEAN COUNTY HIGH SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Cash Balances July 1, 2012	Receipts	Disburse- ments	Transfers	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
General	\$1,858	\$156,484	\$157,126	\$ 326	\$1,542	\$25		\$1,567
Alternative	169	-	147		22			22
Credit Recovery	50	-	50		0			0
Teachers Lounge	67	3,978	1,545	(30)	2,470			2,470
Concessions	4,455	26,351	20,985	426	10,247			10,247
Dance Receipts	110	690	350		450			450
Cats Incentives	2	-	-		2			2
Textbook Rental	0	13,368	13,306		62			62
Peer Tutoring-Co-op	177	116	0	5	298			298
Townsend Scholarship	0	1,000	1,000		0			0
Gatton Scholarship	0	14,777	14,777		0			0
Guidance	99	465	241		323			323
Athletic	9,609	66,240	61,884	(8,164)	5,801			5,801
Soccer	610	5,453	5,383	911	1,591		618	973
Boys Basketball	1,532	12,935	14,727	1,417	1,157	1,157		0
Cheerleaders	1,616	1,586	2,664	600	1,138			1,138
Football	1,765	16,989	12,763	680	6,671		4,398	2,273
Girls Basketball	190	18,130	18,083	1,520	1,757		142	1,615
Girls Softball	1,038	7,909	8,880	678	745			745
Track	574	7,697	8,528	600	343			343
Volleyball	178	4,819	5,833	1,160	324			324
Baseball	1,470	28,862	27,802	543	3,073		206	2,867
Junior Class	659	2,998	3,374		283			283
Senior Class	129	1,465	1,594		0			0
Annual	1,106	16,201	14,383	(1,556)	1,368			1,368
Academic Team	7	-	-		7			7
Beta Club	1,602	4,699	4,323		1,978			1,978
Y Club Donations	10	94	104		0			0
Champions Against	2,249	780	684		2,345			2,345
CBI	28	72	139	200	161			161
FBLA	461	1,974	2,827	1,500	1,108			1,108
FCA	449	-	-		449			449
FFA	5,787	14,523	13,431		6,879			6,879
FCCLA	97	1,190	428		859			859
History Club	178	-	-		178			178
Library Club	664	2,710	879		2,495			2,495
Rock A Teens	492	1,839	2,312	(1)	18			18
Science Club	1,074	290	351		1,013			1,013
Spanish Club	1,513	516	561		1,468			1,468
Student Council	185	-	-		185			185
AP Fees	653	8,352	7,704	(1)	1,300			1,300
ROTC	3,600	7,909	7,222	94	4,381			4,381
Peers Monitoring	0	5	-	(5)	0			0
Discount Cards	5,453	5,034	5,595	(200)	4,692			4,692
Cougar Quick Recall	91	-	-		91			91
Cougar Book Club	133	100	116		117			117
Band	2,569	32,842	30,589	(1)	4,821			4,821
Agriculture	455	5,842	5,652	43	688		28	660
Greenhouse	6,062	3,629	2,888	30	6,833		1,032	5,801
Art	181	955	879	(9)	248			248
Art Club	49	-	-		49			49
ASL	211	-	-		211			211
Arts & Humanities	774	356	55		1,075			1,075
Drama Club	1,403	298	616		1,085			1,085
Business	1,687	1,720	1,669	(47)	1,691			1,691
Technology	147	392	275		264			264
MCHS Student	4	2,381	2,127	(32)	226			226
Drivers Ed.	1,924	658	537		2,045			2,045
English	1,282	1,649	1,466	42	1,507			1,507
Consumer & Family	884	2,425	1,592		1,717			1,717
Math	703	1,418	1,663	(64)	394			394
PE	396	385	716		65			65
Science	2,837	6,172	7,383	(5)	1,621			1,621
Disney	335	65,085	64,311	268	1,377			1,377
Social Studies	270	2,637	2,680	(11)	216			216
Moot Court	0	23,119	19,530	(829)	2,760			2,760
Spanish	1,578	466	831	(1)	1,212			1,212
Special Ed.	333	-	-	(87)	246			246
Charitable Gaming	3	107	105		5			5
<b>TOTAL</b>	<b>\$76,276</b>	<b>\$611,136</b>	<b>\$587,665</b>	<b>\$0</b>	<b>\$99,747</b>	<b>\$25</b>	<b>7,581</b>	<b>\$92,191</b>

MCLEAN COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	7760005-12	\$ 29,729
	10.553	7760005-13	102,250
			<u>131,979</u>
NATIONAL SCHOOL LUNCH PROGRAM			
Cash Assistance	10.555	7750002-12	83,609
	10.555	7750002-13	296,277
NonCash Assistance - Commodities (Note C)	10.555	Fund 51	68,481
			<u>448,367</u>
SUMMER FOOD SERVICE PROGRAM			
	10.559	7690024-12	1,383
		7690024-13	
	10.559	7740023-12	13,296
	10.559	7740023-13	8,681
			<u>23,360</u>
TOTAL CHILD NUTRITION CLUSTER			<u>603,706</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>603,706</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASSED THROUGH STATE DEPARTMENT OF EDUCATION:			
TITLE I, GRANTS TO LOCAL EDUCATION AGENCIES	84.010	3100002-11	152,224
	84.010	3100002-12	238,026
TOTAL TITLE I			<u>390,250</u>
MIGRANT EDUCATION-STATE GRANT PROGRAM			
	84.011	3110002-11	20,447
	84.011	3110002-12	44,258
			<u>64,705</u>
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	3810002-11	18,565
	84.027	3810002-12	321,132
			<u>339,697</u>
SPECIAL EDUCATION - PRESCHOOL GRANTS			
	84.173	3800002-11	7,675
	84.173	3800002-12	8,635
			<u>16,310</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>356,007</u>
VOCATIONAL EDUCATION BASIC GRANTS TO STATES			
	84.048	4621332-12	5,905
	84.048	4621332-13	8,784
			<u>14,689</u>
EDUCATION TECHNOLOGY STATE GRANTS			
	84.318	3210002-10	357
IMPROVING TEACHER QUALITY STATE GRANTS			
	84.367	3230002-10	48,586
	84.367	3230002-11	74,256
	84.367	3230002-12	37,509
			<u>160,351</u>

Continued

**MCLEAN COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued  
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF EDUCATION, CONTINUED</u>			
EDUCATION JOBS FUND	84.410	EJOB00-10	26,988
TITLE VI RURAL & LOW INCOME	84.358	3140002-10	2,363
	84.358	3140002-11	14,936
			17,299
RACE TO THE TOP	84.413A	4521	1,122
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>1,031,768</b>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
DRUG-FREE COMMUNITY SUPPORT	93.276	5003	100,443
	93.276	5002	20,697
			121,140
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>121,140</b>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
ROTC	1010.13JROTC	9009.00	65,431
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			<b>65,431</b>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 1,822,045</b>

**Note A: Basis of Presentation:**

This schedule of expenditures of federal awards includes the federal grant activity of the McLean County School District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this Schedule presents only a selected portion of the operations of the McLean County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the McLean County School District.

**Note B: Summary of Significant Accounting Policies:**

- (1) Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein, certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

**Note C: Commodities:**

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and disbursed.

**Note D: Medicaid Reimbursements:**

Although reported in the financial statements as direct federal revenue, medicaid reimbursements (\$32,648) are not considered expenditures of federal awards for the purposes of the schedule.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL**

**JUNE 30, 2013**

<b><u>Board Members</u></b>	<b><u>Address</u></b>	<b><u>Term Expires December 31</u></b>
William Lovell Chairman	Livermore, Kentucky	2014
Kelly Baird	Calhoun, Kentucky	2014
Wendell Miller	Sacramento, Kentucky	2016
Joyce Sutton	Island, Kentucky	2016
Otis Griffin	Calhoun, Kentucky	2016

**Administrative Personnel**

John C. (Tres) Settle III - Superintendent and Secretary of the Board

Jodie Brackett – Instructional Supervisor

Steve Riggs – Director of Pupil Personnel Transportation and Facilities

Deborah DeArmond – Director of Federal Programs, Human Resources

Sherri Turley – Director of Special Education, FRYSC

David Stokes – Finance Officer

Vicki Hughes – Director of Food Services

Jason Bowman - Technology

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

State Committee for School District Audits  
Members of the Board of Education  
McLean County School District  
Calhoun, 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 State Committee for School District Audits' Fiscal year 2012-2013 Financial Audit Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McLean 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 McLean County Board of Education's basic financial statements and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered McLean 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 the McLean County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (B2013-01) that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McLean County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract.

### McLean County School District's Response to Findings

McLean County School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. McLean County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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.



Alford, Nance & Jones, LLP  
November 8, 2013

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

State Committee for School District Audits  
Members of the Board of Education  
McLean County School District  
Calhoun, Kentucky

Report on Compliance for Each Major Federal Program

We have audited McLean County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of McLean County School District's major federal programs for the year ended June 30, 2013. McLean 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 McLean 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits' Fiscal Year 2012-2013 Financial Audit Contract. Those standards, requirements, 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 McLean 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 on McLean County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, McLean 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

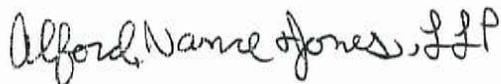
Management of McLean County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered McLean County School District's internal 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 of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McLean 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.

A handwritten signature in cursive script that reads "Alford, Nance & Jones, LLP".

Alford, Nance & Jones, LLP  
November 8, 2013

**MCLEAN COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**for the year ended June 30, 2013**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of the McLean County School District.
2. One significant deficiency was disclosed during the audit of the financial statements as reported in the Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*. This significant deficiency is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of McLean County School District were disclosed during the audit.
4. There were no deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Independent Auditors Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the McLean County School District expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:
 

Child Nutrition Cluster:	
- National School Lunch	10.555
- National School Breakfast	10.553
- Summer Food Service	10.559
IDEA Cluster:	
- Special Education	84.027
- Preschool	84.173
Improving Teacher Quality	84.367
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. McLean County Board of Education was determined to be a low risk auditee.

**MCLEAN COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued**  
**for the year ended June 30, 2013**

**B. Findings-Financial Statements Audit**

Control Deficiency

B2013-01 Significant Deficiency

*Finding:* Effective internal controls over financial reporting have not been established to apply generally accepted accounting principles in preparing the District's financial statements, including required disclosures.

*Criteria:* Effective internal controls over financial reporting are necessary to allow management or employees to prevent or detect misstatements on a timely basis.

*Cause:* The District does not employ personnel who possess the required knowledge, nor has the District outsourced responsibility for these controls.

*Effect:* The District was not able to prepare its financial statements, including disclosures, in accordance with generally accepted accounting principles. Further, the District was limited in its abilities to, prevent, detect, and correct misstatements in the financial statements.

*Recommendation:* We recommend the District either 1) Consider outsourcing the review of the financial statements and disclosures to a qualified individual or accounting firm (auditor is precluded from serving in this capacity due to professional independence standards), or 2) Have an employee obtain the proper training and qualifications to perform a technical review of the financial statements and disclosures.

*Management's Response:* We agree. However, at this time it is not economically feasible for the District to hire an individual with the necessary knowledge or to outsource this control function.

**C. Findings and Questioned Costs - Major Federal Award Program Audit**

None reported

**D. Schedule of Prior Audit Findings (Relative to Federal Awards)**

None reported



State Committee for School District Audits  
Members of the Board of Education  
McLean County School District  
Calhoun, Kentucky 42327

In planning and performing our audit of the financial statements of the McLean 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 financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several 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. A separate report dated November 8, 2013 contains our report on significant deficiencies and material weaknesses, if any, in the District's internal control structure. This letter does not affect our report dated November 8, 2013 on the financial statements of the McLean County School District.

We appreciate the opportunity to bring these comments to your attention. We have already discussed many of 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.

Alford, Nance, & Jones, LLP  
November 8, 2013

**MCLEAN COUNTY SCHOOL DISTRICT**

**MANAGEMENT LETTER POINTS**

**For the year ended June 30, 2013**

**CURRENT YEAR MANAGEMENT LETTER POINTS**

**School Activity Funds Required Forms/Procedures**

Finding and Criteria

The KDE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

<u>Cause and Effect:</u>	<u>MCHS</u>	<u>MCMS</u>	<u>CES</u>	<u>LES</u>	<u>SES</u>
General fund receipts applied to Teacher account	X			X	
No fundraiser approval for Target take charge in Teacher acct	X				
Numerous transfer forms not signed by both parties	X				
Ticket sales form not used or not completed accurately	X	X			
Interest earned not allocated to other funds	X				
Credit card sign in/out sheet not used at times		X			
Annual Report reconciliation not accurate		X			
Some deposits not made timely		X			
Missing some Fundraiser worksheets		X			X
Purchased equipment/supplies with student money		X		X	X
Missing form FSA17 for concession deposit		X			
Multiple receipt forms not completed accurately		X			
Transfer forms not used			X	X	
Did not use expense report			X		
Missing some Booster organization information				X	
Cancelled 50% of SBDM meetings				X	

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of standard forms and procedures.

Response: Superintendent and Finance Officer will meet again with each building administrator and bookkeeper to review audit findings and stress importance of compliance with Red Book procedures. The District has also paid for Redbook trainings two out of the last three years.

**Laws and Regulations**

Salary Schedules

Criteria: Observance of approved single salary schedule is required by KRS 157.320(12), KRS 157.350(3) and 702 KAR 3:070. Teachers are paid based on training, experience and other factors as the Kentucky Board of Education may approve and which does not discriminate.

Finding: Our audit procedures indicated the District paid an individual based on years of service that wasn't supported with the teaching certificate in the personnel file.

**MCLEAN COUNTY SCHOOL DISTRICT**

**MANAGEMENT LETTER POINTS**

**For the year ended June 30, 2013**

Cause and Effect: The employee with previous experience was hired by the district several years ago. The employee's initial pay information was recorded incorrectly causing the employee to receive an additional year of experience step in pay since employment.

Recommendation: We recommend extra care be given when setting up payroll information for new employees, especially in regards to previous years of experience.

Response: The personnel department is doing an audit of every employee in district to ensure the experience that they are being paid for is correct. Each full time employee will have an experience reconciliation sheet in their personnel file after the internal audit is complete. The reconciliation procedures have been in place for several years now, however, the incorrect set up occurred approximately ten years ago. Thus the need for a full audit of all personnel folders, especially those hired before the procedures were put into place.

**PRIOR YEAR MANAGEMENT LETTER COMMENTS (with current year status)**

Finding and Criteria

The KDE "Red Book" requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities. Below summarizes required forms or procedures not being used correctly:

<u>Cause and Effect:</u>	<u>MCHS</u>	<u>MCMS</u>	<u>CES</u>	<u>LES</u>	<u>SES</u>
Missing supporting documentation	X				
Ticket sales form not used coreclty at times	X	X			
Paid sales tax	X				
Purchased furniture/fixtures out of student money	X	X	X	X	
Gaming activity not properly accounted for	X		X		
Purchase Orders not used properly at times		X		X	
Missing Booster organization information		X	X	X	
Inventory control worksheet not used at times		X			
Did not use proper form for receipts (F-SA-17)		X	X		
Missing some fundraiser worksheets		X		X	
Transfer form not used properly at times		X			
Deposit slips not properly initialed		X		X	
Missing fundraiser approval approval			X	X	X
Deposits not being made timely			X		
Spent student funds on professional development				X	X

Recommendation: We recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of standard forms and procedures.

Response: Superintendent and Finance Officer will meet with each building administrator and bookkeeper to review audit findings and stress importance of compliance with Red Book procedures.

FYE 06/30/13 Still applicable, see current year comment